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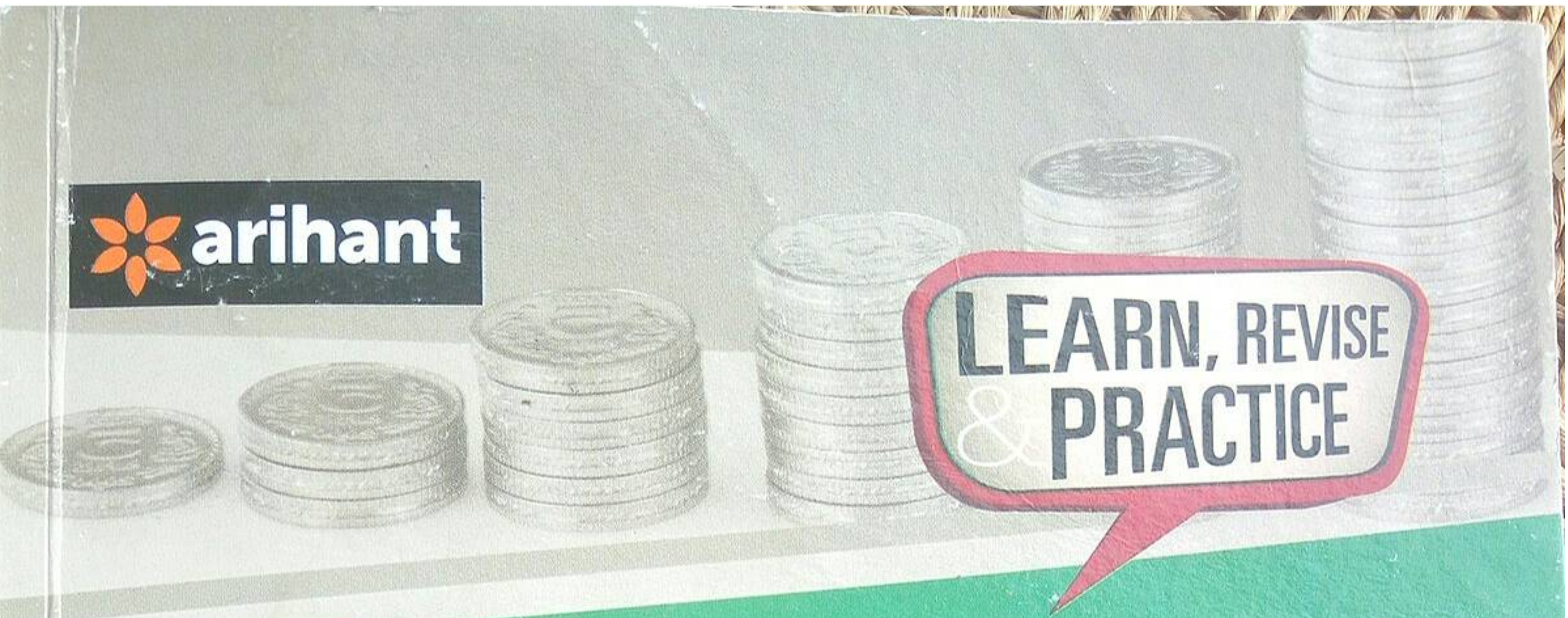

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Contents

1. Indian Economy 1-13
2. Banking System of India 14-29
3. Origin and Development of Banking in India 30-46
4. Financial Reforms and Banking Innovation 47-62
5. Financial Banking Institutions in India 63-73
6. Money and Money Market 74-85
7. Capital Market in India 86-101
8. Industrial Development and Foreign Trade 102-116
9. Public Finance and Budget 117-136
10. International Financial Organisation 137-152

⇨ **Glossary** 153-168
⇨ **Practice Sets (1-11)** 169-223
⇨ **Financial and Banking Current Affair** 1-24

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Chapter

1

Indian Economy

Economy An Introduction

Economy is a framework, within which economic activities are carried out, which could be investment, production and consumption etc.

The economy of India is the 10th largest in the world by nominal GDP and the 3rd largest by Purchasing Power Parity (PPP). On a per capita income basis, India ranked 140th by nominal GDP and 133rd by GDP (PPP) in 2013, according to the IMF. India is the 17th largest exporter and the 10th largest importer in the world.

Definition of Economy

An economy consists of the production, trade of distribution and consumption of limited goods and services by different agents in a given geographical location. The economic agents can be individual, businesses, organisations or governments.

Types of Economy

Following are the types of economy

Traditional Economy In this type of economy, there is very little government involvement. Allocation of resources here is based on rituals, habits or customs.

Free Market Economy This type of economy also has very little governmental interference or control. Economic decisions here are made based on market principles.

Capital Economy In this type of economy , the central problems of economy *i.e.,* there is no interference by the government and price mechanism operate through the forces of demand and supply. In the United States of America, the role of the government is minimal and thus, it is the best example of market economy.

Socialist Economy All important decisions regarding production, exchange and consumption of goods and services are made by the government. The closest example of a centrally planned economy is the Soviet Union for the major part of the 20th century.

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Mixed Economy This type of economy consists of a combination of public sector and private sector units. It basically incorporate governmental involvement in market based economy.

Welfare Economy

Welfare economic analysis the total good or welfare *i.e.*, achieve at a current state as well as how it is distributed. Amastya Sen received the Nobel Prize in economic science for his work in welfare economics.

Green Economy

It is one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. Green economy is an economy or economic development model based on sustainable development and a knowledge of ecological economics.

Sectors of Economy

Traditionally, economies are divided into the following three sectors

Primary Sector

This sector is involved in the extraction or harvesting of products from the Earth. It includes the production of raw materials and basic foods.

Some of the activities included in this sector are as follows

- Agriculture
- Forestry
- Mining
- Fishing etc

Secondary Sector

The secondary sector of the economy is involved in the production of finished goods. All manufacturing processing and construction activities lie in this sector.

Some of the activities in this sector are as follows

- Manufacturing e.g., building
- Production e.g., cloth and bread
- Electricity, gas and water etc related works.

Tertiary Sector

The tertiary sector of the economy is also called as the service sector.

Some of the activities, which are part of this sector are as follows

- Retail
- Banking
- Tourism
- Transport and communication
- Entertainment
- Trade etc

Core Sector

The core sector consists of eight core industries in the economy having a weightage of 37.90% in the Index of Industrial Production (IIP). These eight sectors are coal, crude oil, natural gas, petroleum refinery products, fertilizers, steel, cement and electricity.

Source Year 2012-13

World Bank Classification	GDP Per Capita (US$)
Low Income Countries	$ 1035 or less
Middle Income Countries	$ 1036 $ 4085
High Income Countries	$ 4086 $ 12615

Economic Growth *and* Development

Economic Growth

- It is a quantitative aspect, which generally refers to a long-term tendency reflected by an increase in the flow of goods and services produced by the economy.
- Economic growth is conventionally measured as a percentage increase in GDP or GNP or per capita NDP during 1 year. Per capita NDP is the most appropriate measure of economic growth.

$$\text{Economic Growth Rate} = \frac{NNP_2 - NNP_1}{NNP_1}$$

Where,

NNP_2 = Net national product of current year

NNP_1 = Net national product of last year

Economic Development

- It is a qualitative aspect, unlike economic growth, which is a quantitative aspect. It means growth accompained by welfare or equity.

- Economic development is a multi-dimensional measure, while economic growth emphasis on production *i.e.*, GDP and per capita income, economic development emphasis upon welfare, equality and quality.

$$\text{Economic Development Rate} = \frac{GDP_2 - GDP_1}{GDP_1}$$

Where,

GDP_2 = Growth development product of current year

GDP_1 = Growth development product of last year

Difference between Economic Development and Economic Growth

	Economic Development	Economic Growth
Concept	Broader and normative concept.	Narrower concept than economic development.
Scope	Concerned with structural changes in the economy.	Growth is concerned with increases in the economy's output.
Growth	Development relates to growth of human capital indices, a decrease in ineqiality figures and structural changes that improve the general population's quality of life.	Growth relates to a gradual increase is one of the components of Gross Domestic Product: consumption, government spending, investment, net exports.
Implication	It implies changes in income, saving and investment along with progressive changes in socio-economic structure of country (institutional and technological changes).	It refers to an increase in the real output of goods and services in the country like increase in income, in savings, in investment etc.
Measurement	Qualitative (Human Development Index) HDI, Gender-Related Index (GRI), Human Poverty Index (HPI), infant mortality literacy rate etc.	Quantitative increase in real GDP shown by PPP.
Effect	Bring qualitative and qualitative change in the economic	Bring quantitative changes in the economy.

Measurement of Economic Development

There are various models to measure economic development and comparative situation of different countries.

- Purchasing power parity method
- Human development index
- Green GNP
- Net economic welfare
- Poverty Index
- Basic necessities
- Physical quality of life index
- National prosperity index
- Gender based development index

Least Developed Countries (LDCs)

- These are countries, which exhibit the lowest levels of socio-economic indicators. According to United Nations, *to be classified as an LDC, a country should meet the following criteria*
  - **Low Income** Last 3 years, average GDP per capita should be less than US $ 905, which should exceed US $ 1086 to leave the list.
  - **Human Resource Weakness** It is based on indicators of nutrition, health, education and adult literacy.
  - **Economic Vulnerability** It is based on instability of agricultural production, instability of exports of goods and services and the percentage of population displaced by natural disasters.

National Income

- It measures the net value of goods and services produced in a country during a year and it also includes net factor income from abroad. *i.e.*, National Income measures the productive power of an economy in a given period to turn out goods and services for final consumption. In India, National Income estimates are related with the financial year (1st April to 31st March).
- **National Income can be measured** by GND, GDP, GNI, NNP, NNI and per capita income. GNP and per capita income, though considered as the most standard measure of economic development have some limitation, since they exclude poverty, literacy, public health, gender equity and other measures of human prosperity.

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Estimates of National Income in India

- In 1863, the first attempt was made by **Dadabhai Naoroji** in his book 'Poverty and UN-British Rule in India'. He estimated the per capita annual income to be ₹ 20.
- The first scientific attempt to measure national income in India was made by **Professor VKRV Rao** in 1931-32. He divided the Indian economy into 13 sectors.
- In 1949, **National Income Committee** under the Chairmanship of Professor PC Mahalanobis was constituted. The other members being Professor VKRV Rao and Professor DR Gadgil.
- **National Statistical Commission** (NSO) was set-up on 1st June, 2005, for promoting statistical network in the country. It was then headed by Professor SD Tendulkar.

Estimation of National Income at Current *and* Constant Price

National Income at Current Prices When goods and services produced by normal residents of a country in a given year are estimated at current prices, it is called national income at current prices. Current prices refer to the prices prevailing during the year for which estimates are made. Thus, it is estimation of goods and services produced during a year on the basis of the prices of the same year.

National Income at Constant Prices When goods and services produce by normal residents of a country during a year are valued at fixed prices, *i.e.*, prices of the base year, it is called notional income at constant prices.

Other Concepts of National Income

Other concepts of national income are as follows

Gross Domestic Product (GDP)

It is the money value of all final goods and services produced in the domestic territory of a country during the given time (a year). In GDP, income generated by foreigners in a country is included, but income generated by nationals of a country, outside the country is not included.

$$GDP = C + I + G + (X - M)$$

Where,

C = Total Consumption Expenditure
I = Total Investment Expenditure
G = Total Government Expenditure
X = Export
M = Import

In GDP, income generated by foreigners in a country is included, but income generated by nationals of a country outside the country is not included.

Net Domestic Product (NDP)

It is the value of GDP after deduction of depreciation of plants and machinery from GDP.

$$NDP = GDP - \text{Depreciation}$$

Gross National Product (GNP)

It is the monetary value of all final goods and services produced by the residents of a country in a year.

Net National Product (NNP)

It is the value of GNP after deducting depreciation of plant and machinery.

$$NNP = GNP - \text{Depreciation}$$

National Income (NI)

In India, Net National Income at factor cost is called National Income.

$$NI = NNP - \text{Indirect taxes} + \text{Subsidies}$$

Disposable Personal Income (DPI)

The persons will have to pay the personal tax on personal income. Any income remaining out of personal income after the payment of personal tax and some other fines is termed as disposable personal income.

$$DPI = \text{Personal income} - \text{Personal tax (Income tax)} \\ \text{Non-tax payments (Fines)}$$

Real National Income (RNI)

It is the actual quantity of goods and services produced. The standard of living depends very much of the qualities of goods and services produced.

$$NNP = GNP - \text{Consumption of capital stock}$$

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Personal Income (PI)

It is the part of National Income, which is received by the persons including households. Therefore, to calculate personal income, some adjustments are to be made for those incomes, which are included in the national income but not actually received by the persons and there may be some income which is not included in national income but they are actually received by the persons.

$\text{PI} = \text{NNP}_{FC}$ – Undistributed profits– Corporate tax–Net interest payments made by households + Transfer payments to the households from the government and firms

Market Price and Factor Cost

Market Price It refers to the actual transacted price and it includes indirect, direct taxes such as excise duty, VAT, Service Tax, Custom duty etc but it excludes government subsidies.

Factor Cost It means the total cost of all factors of production consumed or used it producing a goods or services. It includes government grants and subsidies but it excludes indirect tax.

Difference between GDP and GNP

In GDP, goods and services produced in a country is added, whether it is produced by residents of the country or foreigners. Whereas the GNP is the monetary value of all financial goods and services produced by the residents only of a country in a financial year.

Methods of Measuring National Income

National income can be calculated by three methods are as follows

Production Method

In this method, net value of final goods and services produced in a country during a year is obtained, which is called total final product. This represents Gross Domestic Product (GDP). Net income earned in foreign boundaries by nationals is added and depreciation is subtracted from GDP.

Income Method

In this method, a total of net income earned by working people in different sectors and commercial enterprises is obtained. Incomes of both categories of people – paying taxes and not paying taxes and added to obtain national income. By income method, National Income is obtained by adding receipts as total rent, total wages, total interest and total profit.

Consumption Method

It is also called expenditure method. Income is either spent on consumption or saved. Hence, National Income is the addition of total consumption and total savings. In India, a combination of production method and income method is used for estimating National Income.

Purchasing Power Parity (PPP)

It refers to the adjustment to be made in the value of money in a country so that identical goods cost identical money in a particular currency across all countries. Per capita income should be measured in PPP terms to reflect the actual standard of living in a country.

Organisation Engaged in Measuring National Income in India

The two wings of National Statistical Organisation (NSO) is responsible for maintaining the books of National Accounts in India.

National Statistics Office (NSO)

It came into being in March, 1947. However, official statistical had been compiled and published for a long time before.

Central Statistical Organisation (CSO)

For co-ordination of statistical activities of the different Central Ministries and the State Governments and for promotion of statistical standards, the **Central Statistical Organisation** (CSO) was created in May 1951. CSO prepares national accounts, compiles and publishes industrial statistics and conducts economic census and surveys. The Computer Centre (CC) was set–up in 1967 as an attached office of the Department of Statistics to cater to the data processing needs of the Department and other Departments of the Union Government.

National Sample Survey Organisation (NSSO)

It was set-up in 1950 as a permanent survey organisation to conduct national sample surveys to assist in socio-economic planning and policy-making. The first round of NSS, covering rural India was conducted during 1950-1951.

Since, then NSSO has been conducting sample surveys on a variety of subjects and the data have been widely used by the government, social scientists and other users. The work of NSSO has won international acclaim and stimulated the creation of similar organisations in other developing countries.

Tit-Bits

- Sometimes two more **sectors-quaternary** and **quinary**, can also be considered as part of the services sector itself.
- The 2013, Human Development Report, released on 14th March, 2013 is titled "The Rise of the South: Human Development in a Diverse World".
- Service-Industry-Agriculture is the sequence of contribution to GDP in India by the various sectors of the economy in last 10 years.
- **NSO** came into being in March, 1947. However official statistics had been compiled and published for a long time before.
- **Green Index** measures the nation's wealth according to provisions of control on greenhouse gases.

Popular Measures of Economic Development and Social Welfare

Following are the indicators to measure the economic development and social welfare

1. Human Development Index (HDI)

The United Nations Development Programme (UNDP) introduced the HDI in its first Human Development Report (HDR) prepared under the stewardship of Mahbub-ul-Haq in 1990.

It is a standard means of measuring well being. HDI measures the average achievements in a country in three basic dimensions of the human developments, a long and healthy life, access to knowledge and a decent standard of living. HDI tanks countries in relation to each other on a scale of 0 to 1.

The Human Development Index is based on these three indices and that are as follows

Life Expectancy Index (LEI)

Because infant morality is not entering this index as a separate indicator, so here refers to life expectancy at birth, not at age one.

Educational Attainment Index (EAI)

It is a combination of adult literacy rate and combined enrolment ratio. The weight assigned to Adult Literacy Rate (ALR) is two third while that for Combined Enrolment Ratio (CER) is one third. Therefore, educational attainment index may be given as

$$\text{EAI} = \frac{2}{3}\text{ALR} + \frac{1}{3}\text{CER}$$

Standard of Living Index (SLI)

It is represented here by a transformation of per capita income. Per capita income are converted into Purchasing Powered Parity (PPP) is dollars.

Thus,

$$\text{HDI} = \frac{1}{3}(\text{LEI} + \text{EAI} + \text{SLI})$$

2. Physical Quality of Life Index (PQLI)

These indicators reflected that economically less developed countries are simply underdeveloped versions of industrialised countries. Morris David constructed a composite in 1979.

Three component indicators of PQLI are as follows

- Life expectancy
- Infant mortality rate and
- Basic literacy

3. Gross National Happiness (GNH)

It attempts to measure quality of life in a more holistic manner than just an economic indicator like GDP. The four pillars of GNH are promotion of sustainable development, preservation and promotion of cultural values, conservation of natural environments and establishments of good governance.

The term GNH was coined in 1972, by Bhutan's then king **Jigme Singya Wangchuck**. GNH value is proposed to be an index function *of the total average per capita of the following measures*

- Economic Wellness
- Environmental Wellness
- Physical Wellness
- Mental Wellness
- Workplace Wellness
- Social Wellness
- Political Wellness

4. Multidimensional Poverty Index (MPI)

It was developed in 2010, by control poverty and human development initiative and UNDP and different factors to determine poverty beyond income based list were used.

	Dimensions	Indicators
1.	Health	• Child mortality • Nutrition
2.	Education	• Years of schooling • Children enrolled
3.	Living Standard	• Cooking fuel • Toilet • Water • Electricity • Floor • Assets

Tit-Bits

- HDI was created by the Pakistani economist Mahbub-ul-Haq and the Indian economist **Amartya Sen** in 1990 was published by the United Nations Development Programme.
- PQLI was developed for the Overseas Development Council in the mid-1970s by **David Morris**.
- Closed economy involve neither export nor imports as the economy deem to be self sufficient. India's HDI has risen by 62% since 1980 it is 1.7% annually.

5. Global Hunger Index (GHI)

It is a multidimensional statistical tool used to describe the state of country's hunger situation. The index was adopted and furthes developed by International food policy research institute and was first published in 2006. The GHI combines there equally weighted indicators.

(i) The proportion of undernourished as a percentage of the population.

(ii) The percentage of under weight children under the age of 5.

(iii) The mortality rate of children under the age of 5.

6. The Human Poverty Index (HPI)

The UNDP introduced the Human Poverty Index. It is a combined measure using the dimensions of human life already considered in the HDI: life length, knowledge, a decent living standard. The index is calculated annually by the UNDP for all countries according to the availability of statistical data. It is prepared in two forms, depending on whether it is a developing (HPI-1) or an industrialised economy (HPI-2).

The Human Poverty Index for Developing Countries (HPI-1)

The following three dimensions are taken into account are as follows

1. Deprivation of longevity, measured as a percentage of the individuals with a life expectancy lower than 40 years.
2. Deprivation of knowledge, expressed as a percentage of illiterate adults.
3. Deprivation of decent living standards. This last indicator is made up by the simple average of three basic variables ; the percentage of the population without access to drinking water, the percentage of population without access to health services (P_{32}) and lastly, the percentage of underweight children aged less than 5.

The Human Poverty Index for Industrialised Countries (HPI-2)

The human poverty index for industrialised countries uses the same dimensions of the previous index, but *the variables and reference values are different*

- Deprivation of longevity is measured by the percentage of individuals whose life expectancy is below 60 years of age.
- Deprivation of knowledge is based on the percentage of adults functionally illiterate according to the OECD definition.
- Deprivation of decent life standards (P_3) is the percentage of the population living below the poverty level, as defined according to the criteria of the International Standard of Poverty Line, thus being equal to 50% of the per capita average national income.

7. Gender Development Index (GDI)

- It was introduced in 1995 in the Human Development Report written by the united. The Gender Development Index (GDI) is a composite indicator that measures the development of states according ot the standard of living in a country.
- It is used as one of the five indicators by the United Nations Development Programme in their annual Human Development Report. It highlights inequalities in the areas of long and healthy life, knowledge and a decent standard of living between men and women.

8. National Prosperity Index (NPI)

The Prosperity Index goes beyond GDP to measure countries' success against a broad set of metrics covering areas such as health, education, opportunity, social capital, personal freedom and more.

Hence, we have evolved what is called a National Prosperity Index (NPI) *which is a summation of*

- Annual growth rate of GDP;
- Improvement in quality of life of the people, particularly those living below the poverty line;
- The adoption of a value system derived from out civilisational heritage in every walk of life which of unique to India.

The NPI is a summation of GDP growth, improvement is quality of life of people living below the poverty line and adoption of value system derived from our civilisational heritage in every walk of life.

The prosperity index is the only global index that measures national prosperity based on both wealth and wellbeing. The index seeks to redefine the concept of national prosperity to include, as a matter of fundamental importance, factors such as democratic governance, entrepreneurial opportunity and social cohesion.

Question Bank

1. When the growth of GDP in a country slows down suddenly, people start losing their jobs and the situation continues for several weeks, what name is given to this state of economy (A big country was in this state recently)? **[SBI 2008]**
   (1) Inflation (2) Recession
   (3) Deflation (4) Economic boom
   (5) None of these

2. Which of the following is a major concept frequently referred in the economic literature of Dr Amartya Sen, the Nobel Prize-winning economist? **[NABARD 2009]**
   (1) Positive freedom (2) Corporate ethics
   (3) Capability to function
   (4) Negative freedom
   (5) Welfare economics

3. The higher rate of growth of economy certainly reduces **[IBPS PO 2009]**
   (1) gender inequalities
   (2) poverty
   (3) population of a country
   (4) flow of foreign direct investment
   (5) None of the above

4. What is a Green Index? **[IBPS PO 2011]**
   (1) It measures the nation's wealth according to GNP per capita
   (2) It measures the nation's wealth according to GDP per capita
   (3) It measures the nation's wealth according to provisions of control on greenhouse gases
   (4) It measures nation's wealth in terms of coverage of forest area
   (5) None of the above

5. What is Gross Domestic Product? **[IBPS PO 2011]**
   (1) It is the cost of production of all final goods and services made in the country
   (2) It is the cost of services made within the borders of a country in a year
   (3) It is the market value of all final goods and services made in the country
   (4) It is the market value of all final goods and services made within the borders of a country in a year
   (5) None of the above

6. Mixed economy means **[IBPS PO 2011]**
   (1) co-existence of small and large industries
   (2) promoting both agriculture and industries in the economy
   (3) co-existence of public and private sectors
   (4) co-existence of the rich and the poor
   (5) existence of wholesale and retail markets

7. In economic terms, the total market value of all final goods and services produced in a country in a given year is known as **[RBI 2011]**
   (1) GNI (2) GDP (3) inflation (4) PPP
   (5) wealth of a nation

8. GNP stands for **[IBPS PO 2011]**
   (1) Gross National Product
   (2) Group Net Product
   (3) Grand Nuclear Process
   (4) Group Networking Process
   (5) None of the above

9. In India, the National Income is measured on the basis of **[RBI 2011]**
   (1) flow of goods only
   (2) number of employed youth only
   (3) volume of tax collected per annum
   (4) earning of people working in PSUs and government jobs
   (5) All of the above

10. Which of the following is one of the measures of economic growth of a country? **[RBI 2011]**
   (1) Volume of direct investment made by foreign countries
   (2) Number of companies listed on the stock exchanges
   (3) Gross domestic product of the nation
   (4) Number of foreign nationals working in a country
   (5) All of the above

11. Which of the following is one of the indicators of Human Development Index (HDI)? **[RBI 2011]**

(1) Life expectancy at birth
(2) Total cost of the agricultural land with a family
(3) Total area of the agricultural land with a family
(4) Availability of perennial source of water for irrigation
(5) Nature of employment, casual permanent or semi-permanent

12. Increased interest rates, as is existing in the economy at present, will **[IBPS 2012]**

(1) lead to higher GDP growth
(2) lead to lower GDP growth
(3) mean higher cost of raw materials
(4) mean lower cost of raw materials
(5) mean higher wage bill

13. Consider the following statements

I. The first attempt to calculate National Income of India was made by Dadabhai Naoroji.

II. The first scientific method to calculate national income of India was made by Professor VKRV Rao.

Which of the statements given above is/are correct?

(1) Only I (2) Only II
(3) Both I and II (4) Neither I nor II
(5) Either I or II

14. Consider the following statements

I. GDP is a better measure of National Income than GNP.

II. GNP is always higher than GDP.

Which of the statements given above is/are correct?

(1) Only I (2) Only II
(3) Both I and II (4) Neither I nor II
(5) Either I or II

15. Real national income growth refers to

(1) national income growth adjusted for inflation
(2) national income growth adjusted for population growth
(3) national income growth adjusted for depreciation rate
(4) national income growth adjusted for saving growth
(5) national income growth adjust for saving

16. Consider the following statements

I. Net national product is most appropriate method to measure the economic growth of a country.

II. Max O Lorenz firstly introduced Gross domestic product to measure the economic growth of a country.

Which of the statements given above is/are correct?

(1) Only I (2) Only II
(3) Both I and II (4) Neither I nor II
(5) Either I or II

17. Refinance ficility is provided by NABARD. Which institutions can avail this facility?

(1) State cooperative banks
(2) Regional rural banks
(3) Commericial bank
(4) All of the above
(5) None of the above

18. RBI has sold its entire stake except 1% in which of the following organisations?

(1) DICGC
(2) NABARD
(3) SIDBI
(4) National Housing Bank
(5) None of the above

19. Which one of the following is the correct sequence of contribution to gross domestic product in India by the various sectors of the economy in last 10 years?

(1) Agriculture-Industry-Service
(2) Agriculture-Service-Industry
(3) Service-Agriculture-Industry
(4) Service-Industry- Agriculture
(5) None of the above

20. Which of the following is not included in the estimates of National Income?

(1) Sale of collector's items
(2) Addition to inventory, but not sale of the company's products
(3) Market rent of self owned house
(4) Cost of government services
(5) None of the above

21. The term 'Gross National Happiness' was coined by

(1) Amretya Sen (2) Bhutan's King
(3) Maqbool Haq (4) European Union
(5) Economists of Sweden

22. Central Statistical Organisation is now know as

(1) Central Statistical Office
(2) Central Science Office
(3) Common Statistical Organisation
(4) Current Statistical Organisation
(5) Common Statistical Office

23. NNP stands for

(1) Net National Product
(2) National New Product
(3) Net New Product
(4) National Net Product
(5) Net National Income

24. The largest share of Gross Domestic Product (GDP), in India comes from

(1) agriculture and allied sector
(2) manufactuing and construction
(3) service sector
(4) defence and public administration
(5) defence and allied sector

25. GDP at factor cost is

(1) GDP minus indirect taxes plus subsidies
(2) GNP minus depreciation allowance
(3) NNP plus depreciation allowance
(4) GDP minus subsidies plus indirect taxes
(5) None of the above

26. Gross Domestic Product (GDP) is defined as the value of all

(1) goods produced in an economy in a year
(2) goods and services in an economy in a year
(3) final goods produced in economy in a year
(4) final goods and services produced in an economy in a year
(5) None of the above

27. Per capita income is obtained by dividing National Income by

(1) total population of the country
(2) total working population
(3) area of the country
(4) volume of the capital used
(5) None of the above

28. Which of the following is not an apex institution?

(1) SBI (2) SIDBI
(3) NABARD
(4) State Cooperative bank
(5) None of the above

29. Net National Product (NNP) of a country is

(1) GDP minus depreciation allowances
(2) GDP plus net income from abroad
(3) GNP minus net income from abroad
(4) GNP minus depreciation allowances
(5) None of the above

30. Which sectors of Indian Economy contributes largest to the gross national product?

(1) Primary sector (2) Secondary sector
(3) Tertiary sector (4) Public sector
(5) None of these

31. The main source of National Income of India is

(1) service sector
(2) agriculture
(3) industrial sector
(4) trade sector
(5) None of the above

32. Intermediate goods are excluded from GDP because

(1) they represent goods that have never been purchased so they cannot by counted
(2) their inclusion would understate GDP
(3) their inclusion would involve double counting
(4) the premise of the question is incorrect because intermediate goods are directly included in calculating GDP
(5) value of intermediate goods is unknown

33. Gross domestic product is a measure of the total value of all

(1) consumer income in an economy over a period of time
(2) capital accumulation in an economy over a period of time
(3) sales in an economy over a period of time
(4) final goods and services produced in an economy over a period of time
(5) final as well as intermediate goods and services produced in an economy over a period of time

34. The base-year method of calculating real GDP compared

(*1*) quantities produced in different years using prices from a year chosen as a reference period

(*2*) quantities produced in different years with the prices that prevailed during the year in which the output was produced

(*3*) the quantities of goods produced in consecutive years using prices in both years and averaging the percentage changes in the value of output

(*4*) prices at different points in time using a sample of goods that is representative of goods purchased by households

(*5*) None of the above

35. The concept of 'Net Domestic Investment' refers to

(*1*) the amount of machinery and equipment used up in producing the GDP in a given year

(*2*) the difference between the market value and book value of outstanding capital stock

(*3*) gross domestic investment less net exports

(*4*) total investment less the amount of investment goods used up in accomplishing the year's production

(*5*) None of the above

36. The GDP is the value of all final goods and services produced

(*1*) within the nations boundaries

(*2*) by domestically owned companies

(*3*) by citizens of the country

(*4*) by domestically controlled companies

(*5*) None of the above

37. In any year, real GDP

(*1*) might be greater or less than potential GDP

(*2*) will always be greater than potential GDP because of the tendency of nations to incur inflamation

(*3*) always equals potential GDP

(*4*) must always be less than potential GDP

(*5*) cannot be determined

38. Who amongst the following economists gave the concept of 'economies of scale',which says 'many goods and services' can be produced more cheaply in long series'?

(*1*) Edward C Prescott

(*2*) Amartya Sen

(*3*) Gary S Becker

(*4*) Edmund S Phelps

(*5*) Paul Krugman

39. In the present context of socio-economic development, the concept of 'meeting the needs of the present without compromising the ability of future generations to meet their needs' is popularly known as the concept of

[NABARD 2009]

(*1*) sustainable development

(*2*) uniform growth

(*3*) target-driven growth

(*4*) no risk-no growth

(*5*) social viability

40. According to the World Bank, which of the following attributes of an economy are that of a 'high income' economy?

I. GDP per capita of $ 15000.

II. Adult literacy of more than 95%.

III. Top 5 countries of the World GDP wise.

Select the correct answer using the codes given below

(*1*) Only I
(*2*) Only III
(*3*) I and II
(*4*) I and III
(*5*) II and III

41. Consider the following statements

I. The base year for measuring GDP in India is 2004-05.

II. The CSO functions under the Ministry of Statistics and Programme Implementation.

III. NSSO is a part of Central Statistical Organisation (CSO).

Which of the statements given above is/are correct?

(*1*) II and III
(*2*) Only I
(*3*) I and II
(*4*) I and III
(*5*) All of these

42. Which of the following is not included in National Income Accounts?
   (1) Second hand goods
   (2) Transaction in stock markets
   (3) Transfer payments
   (4) All of the above
   (5) None of the above

43. Which of the following is the standard definition of recession?
   (1) Negative GDP growth for the year as a whole
   (2) Negative GDP growth for two consecutive quarters
   (3) Negative GDP growth for three consecutive quarters
   (4) Negative GDP growth with increased rate of inflation compared to the pervious years
   (5) Positive GDP growth for two consecutive quarters

44. Which of the following are signs of an open economy?
   I. Share of trade in GDP is high.
   II. GDP and GNP are almost the same.
   III. Exchange rate is determined by markets.

   Select the correct answer using the codes given below
   (1) I and III
   (2) Only II
   (3) I and II
   (4) II and III
   (5) All of these

45. Which of the following are included, when calculating GDP by the expenditure method?
   I. Value of tyres sold by a tyre manufacturer to a car manufacture.
   II. Amount of imports.
   III. Amount spent on education by a household.

   Select the correct answer using the codes given below
   (1) Only II
   (2) I and II
   (3) II and III
   (4) Only III
   (5) All of the above

46. Which of the following cames close to the meaning of Green GDP, a measure that was introduced in China a few years ago?
   (1) The size of the renewable energy sector of the economy
   (2) The size of the GDP with environmental degradation substracted out in quantitative terms
   (3) The size of the GDP per unit of CO_2 emissions
   (4) All of the above
   (5) None of the above

47. GDP growth as a measure of development is unreliable because
   I. it does not include enviromental degradation.
   II. it does not measure growth in incomes.
   III. it does not measure increase in jobs.

   Select the correct answer using the codes given below
   (1) II and III
   (2) I and II
   (3) I and III
   (4) Only III
   (5) All of these

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1. (2) 2. (5) 3. (5) 4. (3) 5. (4) 6. (3) 7. (2) 8. (1) 9. (5) 10. (3)
11. (1) 12. (3) 13. (3) 14. (4) 15. (1) 16. (4) 17. (4) 18. (2) 19. (4) 20. (1)
21. (2) 22. (1) 23. (1) 24. (3) 25. (1) 26. (4) 27. (1) 28. (1) 29. (4) 30. (3)
31. (1) 32. (3) 33. (4) 34. (1) 35. (4) 36. (1) 37. (1) 38. (5) 39. (1) 40. (1)
41. (3) 42. (4) 43. (2) 44. (1) 45. (3) 46. (2) 47. (3)

Chapter 2

Banking System of India

Meaning of Banks

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides Fundamental Banking Services such as accepting deposits and providing loans.

There are also non-banking institutions that provide certain banking services without meeting the legal definition of a bank.

A banking system also referred as a system provided by the bank which offers cash management services for customers, reporting the transactions of their accounts and portfolios, throughout the day.

The following functions of the banks are as follows

- To provide the security to the savings of customers.
- To control the supply of money and credit.
- To encourage public confidence in the working of the financial system increase savings speedily and efficiently.
- To avoid focus of financial powers in the hands of a few individuals and institutions.
- To set equal norms and conditions (*i.e.*, rate interest, period of lending etc) to all types of customers.

Indian Companies (Amendment) Act, 1936

The Indian Companies Act that was passed in 1913 introduced the institution of private companies in corporate sector in India. But the Act of 1913 did not provide the peculiar environment for Indian commerce, hence to remove these deficiencies, the Indian Companies (Amendment) Act was passed in 1936.

The Amendment Act, 1936 introduced various provisions relating to functioning of directors, guaranteeing payment of provident fund to employess etc. Further in October 1942, Companies Act was amended so that any company which uses world 'bank', 'banking' or 'banker' shall be deemed to be a banking company.

Banking Regulation Act, 1949

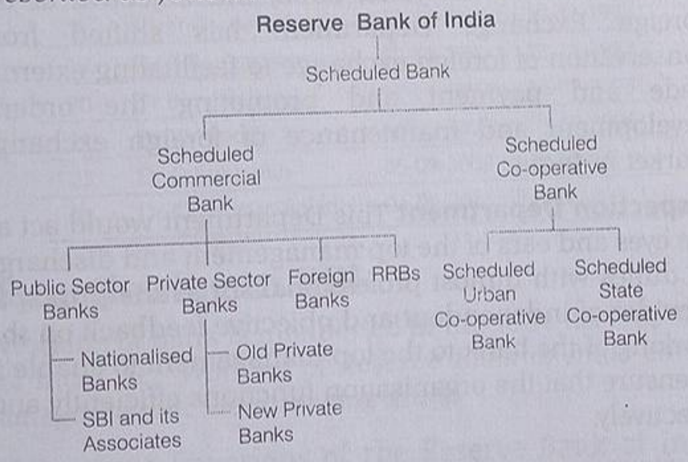
The Banking Regulation Act, enacted in 1949, has been a milestone in the history of banking in India. This act provides a framework for regulation and supervision of commercial banking activity.

Reserve Bank of India

Bank of India is the Central Bank of our country. On the recommendation **Hilton Young Commission**, it was established on 1st April, 1935 and in 1949 it was nationalised.

In terms of the preamble to the Reserve Bank of India Act, 1934, 'The main functions of the bank are to regulate the issuing of bank notes and keeping the reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.

An outline of the India banking structure may be *presented as follows*


Reserve Bank of India
Scheduled Bank
Scheduled Commercial Bank
Scheduled Co-operative Bank
Public Sector Banks
Private Sector Banks
Foreign Banks
RRBs
Scheduled Urban Co-operative Bank
Scheduled State Co-operative Bank
Nationalised Banks
SBI and its Associates
Old Private Banks
New Private Banks

Organisation and Management of RBI

Reserve Bank of India is managed by the Central Board of Directors. Presently, this board consists of 21 members. Besides Governor and four Deputy Governors, four directors are nominated, each by the four Local Boards. Besides, ten directors and two government officer are nominated by the Government of India. These boards have been established, in Mumbai, Kolkata, Chennai and New Delhi respectively. According to the Reserve Bank of India Act, the term of nominated members is for 4 years. Governor and Deputy Governors are appointed by the government for a period of 5 years. Central Board of Directors must hold at least '6' meetings in a year and at least one meeting in 3 months. Bank's Head Office is located in Mumbai. The bank has 28 regional offices, most of which are in state capitals.

Structure of RBI Organisation

RBI is wholly owned by the government in India. Central Board of directors oversees the Reserve Bank's business.

Central Board

The Central Board has primary authority for the oversight of the Reserve Bank. It delegates specific functions through its committees and sub- committees.

It includes the Governor, Deputy Governors and a few Directors (of relevant local boards). Currently Dr Raghuram Rajan is the governor.

Committee of Central Board Overseas

The current business of the Central Bank and typically meets every week, on wednesdays. The agenda focusses on current operations, including approval of the weekly statement of accounts related to the issue and banking departments.

Board for Financial Supervision

It regulates and supervises Commercial Banks, Non-Banking Finance Companies (NBFCs), development finance institutions, urban Co-operative Banks and primary dealers.

Board for Payment and Settlement Systems

Regulates and supervises the payment and settlement systems.

Sub-Committees of the Central Board

It includes those on inspection and audit, staff and building. Focus of each sub-committee is on specific areas of operations.

Local Boards

In Chennai, Kolkata, Mumbai and New Delhi, representing the country's four regions. Local board members, appointed by the Central Government for 4 year terms, represent regional and economic interests and the interests of Co-operative and Indigenous Banks.

Training Centres

The Reserve Bank Staff College at Chennai addresses the training needs of RBI Officers, the College of agricultural banking at Pune trains staff of Co-operative and Commercial Banks, including Regional Rural Banks. The zonal training centres, located at regional offices, train non-executive staff.

Research Institutes

RBI-funded institutions to advance training and research on banking issues, economic growth and banking technology, such as, National Institute of Bank Management (NIBM) at Pune, Indira Gandhi Institute of Development Research (IGIDR) at Mumbai and Institute for Development and Research in Banking Technology (IDRBT) at Hyderabad.

Subsidiaries

Fully-owned subsidiaries include National Housing Bank (NHB), Deposit Insurance and Credit Guarantee Corporation (DICGC), Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL). The Reserve Bank also has a majority stake in the National Bank of Agriculture and Rural Development (NABARD).

Departments of RBI

Following are the Departments of RBI

Department of Currency Management It has the responsibility of administering the functions of currency management, a core function of the Reserve Bank in terms of the Reserve Bank of India Act, 1934.

Department of Banking Operations and Development It is entrusted with the responsibility of regulation of Commercial Banks under the regulatory provisions contained in the BR Act, 1949 and RBI Act, 1934 besides enunciation of banking policies.

Rural Planning and Credit Department It formulates policies relating to rural credit and monitors timely and adequate flow of credit to the rural population for agricultural activities and rural employment programmes.

Foreign Exchange Department With the introduction of the Foreign Exchange Management Act, 1999 (FEMA) with effect from 1st June, 2000, the objective of the Foreign Exchange Department has shifted from conservation of foreign exchange to facilitating external trade and payment and promoting the orderly development and maintenance of foreign exchange market in India.

Inspection Department This Department would act as the eyes and ears of the top management and discharge its duties with utmost professionalism as the principal provider of independent and objective feedback on the working of the bank to the top management to enable it to ensure that the organisation functions efficiently and effectively.

Objectives of RBI

- Operating monetary policy with the aim of maintaining economic and financial stability and ensuring adequate financial resources for development purposes;
- Meeting the currency requirement of the public;
- Promotion of an efficient financial system;
- Foreign exchange reserve management;
- The conduct of banking and financial operations of the government.

Governors of RBI

S. No.	Governors	Tenure
1.	Sir Osborne Smith	01-04-1935 to 30-06-1937
2.	Sir James Taylor	01-07-1937 to 17-02-1943
3.	Sir CD Deshmukh	11-08-1943 to 30-06-1949
4.	Sir Benegal Rama Rau	01-07 1949 to 14-01-1957
5.	KG Ambegaonkar	14-01-1957 to 28-02-1957
6.	HVR Lengar	01-03-1957 to 28-02-1962
7.	PC Bhattacharya	01 03-1962 to 30-06-1967
8.	LK Jha	01-07-1967 to 03-05-1970
9.	BN Adarkar	04-05-1970 to] 5-06-1970
10.	S Jagannathan	16-06-1970 to 19-05-1975
11.	NC Sen Gupta	19 05-1.975 to 19-08-1975
12.	KR Puri	20-08-1975 to 02-05-1977
13.	M Narasimham	02-05-1977 to 30-11-1977
14.	Dr IG Patel	01-12-1977 to 15-09-1982
15.	Dr Manmohan Singh	16-09 1982 to 14-01-1985
16.	A Ghosh	15-01-1985 to 04-02-1985
17.	RN Malhotra	04-02-1985 to 22-12-1990
18.	S Venkitaramanan	22-12-1990 to 21-12-1992
19.	Dr C Rangarajan	22-12-1992 to 21-11-1997
20.	Dr Bimal Jalan	22-11-1997 to 06-09-2003
21.	Dr YV Reddy	06-09-2003 to 05-09-2008
22.	Dr D Subbarao	05-09-2008 to 04-09-13
23.	Dr Raghuram Rajan	04-09-2013 till date

Functioning of RBI

Working of bank is mentioned in the 1934 Reserve Bank of India Act. *Working of Reserve Bank of India can be categorised in the following group*

Important Functions of the Reserve Bank of India

As a Central Bank	As an Ordinary Bank
Note Issuing Authority	Granting short-term loans
Banker of Government	Recovering short-term loans
Banker's Bank	Buying/Selling of bills
Collects and Publishes Banking Data	Accepting deposits
Custodian of Foreign Exchange Reserves	Buying selling of agricultural bills
Provision of Agricultural Credit	Dealing with foreign securities
Provision of Industrial Credit	Dealing with costly metals
Training Facilitation	Dealing with banks of other countries
Controller of Credit	
Clearing House Function	

Development Functions

These functions are country specific functions and can change according to the requirements of that country. The RBI has been performing as a promoter of the financial system, since its inception.

Some of the major development functions of the RBI are mentioned below

Development of Agriculture Right from the beginning, Reserve Bank of India has an Agricultural Credit Department. The principal function of this department is to conduct research regarding various problems of agricultural credit.

Promotion of Industrial Finance Rapid industrial growth require's adequate and timely availability of credit to small, medium and large industry. For this, RBI has been instrumental in setting up special financial institutions such as ICICI, IDBI, SIDBI and Exim Bank etc. Reserve Bank provides significant financial assistance for the industrial development of the country.

Promotion of Export Through Refinance RBI tries to encourage the facilities for providing finance for foreign trade especially exports from India. The Export-Import Bank of India (Exim Bank India) and the Export Credit Guarantee Corporation of India (ECGC) are supported by refinancing their lending for export purposes.

Development of Bill Market Reserve Bank has made concerted efforts for the development of bill market. In this regard, it initiated its first plan in 1952. This plan was made applicable for all the scheduled banks from 1954 onwards. In 1958, export bills also came within the purview of this plan. In 1970, Reserve Bank started New Bill Market Programme. As a result of development of the bill market, it can be possible to make the monetary policy more successful.

Development and Regulation of Banking System Because of the notable efforts of Reserve Bank that banking system in India has assumed the status of development banking. Also, there has been a notable spread of branch banking in rural areas. Appropriate credit facilities have been arranged for the priority sectors. In order to regulate the functions of the banks, in 1993, Board of financial Supervision was set-up. Since 1994, banks in the private sector have been issued licences.

Traditional Functions

These are those functions which every Central Bank of nation performs all over the world. These functions are in line with the objective with which the bank is set-up. It includes fundamental functions of Central Bank.

General Banking Functions

Reserve Bank is not a Commercial Bank. Yet, being the Central Bank, it performs certain general banking functions as well.

These functions are as follows

To Accept Deposits The bank accepts deposits of the Central Government, State Governments and port-trust without paying any interest.

To Deal in Bills Reserve Bank buys, sells and rediscounts the bills, promissory notes and hundies. However, these bills should not be of duration exceeding 90 days and should be payable within the country.

Lending of Money As a Central Bank, the Reserve Bank of India gives loans to the Central and State Governments. These loans are of duration of not more than 90 days. The loans are given against securities, credit notes of the banks and gold or silver.

To Deal in Agricultural Bills Reserve Bank also buys, sells and discounts agricultural bills. These bills should be payable in India and should not be of duration exceeding 15 months.

To Deal in Foreign Securities The RBI deals in all such foreign securities which are encashable within 10 years from the date of purchase.

Taking of Loans Reserve Bank can borrow loan on the security of assets from scheduled banks. Duration of such loan should not exceed 30 days nor should it exceed the total capital of the bank.

To Deal in Costly Metals Reserve Bank deals in the sale and purchase of gold, silver as well as the coins of these metals.

To Deal with the Banks of Other Countries Being a member of IMF, Reserve Bank establishes business relations with the Central Banks of other member countries. It can open accounts with those banks and may act as their agent or handle IMF dealings.

Central Banking Functions

Reserve Bank is the Central Bank of India. Central *banking functions are as under*

Issue of Paper Currency The Reserve Bank is one nation's **sole note issuing authority**. It issues notes of the denomination of 2, 5, 10, 20, 50, 100, 500 and 1000. The bank has a separate department for note issuing. This is known as **Issue Department**. In accordance with the Reserve Bank of India Act, RBI Bank is required to maintain Reserve fund for note issuing.

The Indian Currency System The present monetary system of India is based on inconvertible paper currency and is managed by the Reserve Bank of India. The present currency system is based on minimum reserve system, of note issue. It was adopted in 1957 under the minimum reserve system, minimum of gold and foreign securities to the extent of ₹ 200 crore (of which gold should be of value ₹ 115 crore) and the balance in rupee (₹) securities maintained.

New Symbol of Indian Currency '₹'

The new symbol designed by D Udaya Kumar, a post graduate of IIT Bombay was finally selected by the Union Cabinet on 15th July, 2010. The new symbol, is an amalgamation of Devanagri 'Ra' and the Roman 'R' without the stem.

The ₹ symbol of Indian rupee came into use on 15th July, 2010. India is the fifth country (after America, Britain, Japan and Europe) to accept a unique currency symbol.

Banker of the Government The RBI has to work as an agent of the Central and State Governments. It performs various banking functions such as to accept deposits, taxes and make payments on behalf of the government. It works as a representative of the government even at the international level. It maintains government accounts, provides financial advice to the government. It provides overdraft facility to the government in case of financial crunch.

Banker of Banks and Lender of the Last Resort RBI acts as a banker for all the Commercial Banks. All scheduled banks come under the direct control of RBI. All commercial as well as schedule banks have to keep a minimum reserve with the RBI. They have to submit weekly reports to RBI about their transactions. By performing 3 functions, the RBI helps the member banks significantly.

They are given below

- It acts as the lender of the last resort.
- It is the custodian of cash reserves of Commercial Banks.
- It clears, transfers the transaction. It acts as the central clearing house.

Minimum Reserve System (MRS)

The asset of the issue department were to consist of not less than ₹ 40 crore in value. Remaining 3/5th of asset might be rupee coins. This was called proportional reserve system.

The system changed in 1965. Since than RBI is required to maintain a gold and foreign exchange reserve of ₹ 200 crore of which at least ₹115 crore should be in gold. This is called minimum reserve system.

Regulatory Functions

Control of credit is the principal function of the Reserve Bank of India. Control of credit means expansion or contraction of credit. The key aim of the monetary regulation is to achieve the objective of growth with stability. Reserve Bank of India makes use of all those methods of credit control that are adopted by other Central Banks in the world.

The methods adopted by the Reserve Bank to control credit are studied under two parts

Quantitative Credit Control

To control the flow of quantum of credit, Reserve Bank adopts all those measures that are generally adopted by the Central Banks in different countries.

These measures are as under

Bank Rate Rate of interest that the Reserve Bank charges from other scheduled banks on the loans given to them is called bank rate. Policy of bank rate has not been used as a weapon to check price rise.

Differential Rates of Interest In October, 1960 the Reserve Bank started differential rates of interest programme. According to this programme, if any bank borrows from the Reserve Bank beyond the quota fixed for it, it has to pay higher interest rate than the prevailing bank rate.

Open Market Operations It mean that the bank controls the flow of credit through the sale and purchase of government securities in the open market.

Cash Reserve Ratio (CRR) It is the amount of funds that the banks have to keep with RBI. If RBI decides to increase this rate the available amount with the banks comes down. RBI uses this method (increase of CRR rate), to drain out the excessive money from the banks.

Statutory Liquidity Ratio (SLR) It is the ratio of liquid asset, which all Commercial Banks have to keep in the form of cash, gold and unencumbered approved securities equal to not more than 40% of their total demand and time deposits liabilities.

Direct Action According to the 1949 Act, Reserve Bank can stop any Commercial Bank from any type of transaction'. In case of defiance of the orders of Reserve Bank, it can resort to direct action against the member bank. It can stop giving loans and even recommend the closure of the member bank under pressing circumstances.

Credit Authorisation Scheme In 1965, Credit Authorisation Scheme was adopted. It aims at regularising of the credit given by the banks. Before sanctioning a credit limit of ₹ 2 crore or more to any one debtor, every bank will have to get authorisation from the Reserve Bank. Even after the authorisation the creditor bank can inspect the account books of the debtor to ascertain the use of the credit.

Liquidity Adjustment Facility (LAF) It is the primary instrument of Reserve Bank of India for modulating liquidity and transmitting interest rate signals to the market. Liquidity Adjustment Facility was introduced for the first time for June, 2000 onwards. Subsequent revisions were made in 2001 and 2004.

Tit-Bits

- RBI continued to serve as the **Central Bank to Burma** (Myanmar), until Japanese occupation of Myanmar in April, 1947.
- RBI continued to serve as Central Bank to Pakistan, until June, 1948.
- Repo rate and reverse rapo rate are the parts of Liquidity Adjustment Facility (LAF) of RBI.
- The reverse rapo rate will be kept 100 basis points. Lower than the rapo rate, on the other hand, Marginal Standing Facility (MSF) will be kept 100 basis points, higher than the repo rate.

RBI Controls, Inflation and Growth

RBI can influence inflation and growth in the economy to a large extent through its instruments of control. It is RBI squeezes out liquidity from the economy by selling securites, increasing repo rates, increasing CRR etc, then the demand in the economy is reduced and inflation is brought under control.

However, in case inflation is due to supply side shortages, RBI controls have less influence. Similarly, increasing liquidty in economy means that households have more money to consume, industries have more money to invest in plant and machinery etc all of which lead to increase in economic activity.

Qualitative or Selective Credit Control

This refers to the control of specific credit meant for certain specific objectives. e.g., if the government wants to check the rising prices of wheat in India, the Reserve Bank may instruct the member banks not to give loans against the security of wheat. Traders will not get credit for the purchase of wheat and therefore, they will not be able to buy large quantities of wheat. This would bring down wheat prices as the credit squeeze is directed towards wheat alone. It is thus called selective control.

Change in Margin Requirements on Loans Reserve Bank directs the member banks to change their margin requirement from time to time. First such direction was given by the Reserve Bank in May and September, 1956 regarding rice-trade.

Maximum Limit of the Loans With a view to checking speculation Reserve Bank has fixed maximum limits of loans by the Commercial Banks. No scheduled bank is allowed to grant, loan exceeding 1 crore to any single party without the prior permission of Reserve Bank of India, according to its 20th November, 1965 Credit Policy. This restriction has since been withdrawn.

Rationing of Credit It is yet another technique of selective credit control. Under this programme, the Reserve Bank fixed credit quota for member banks as well as their limits for the payment of bills. Quota system was introduced in 1960.

Moral Persuasion From time to time Reserve Bank holds meetings with the member banks seek their. co-operation in effectively controlling the monetary system of the country. It advises against the expansion of credit, except to priority sector *i.e.*, agriculture, small industries etc.

Mints

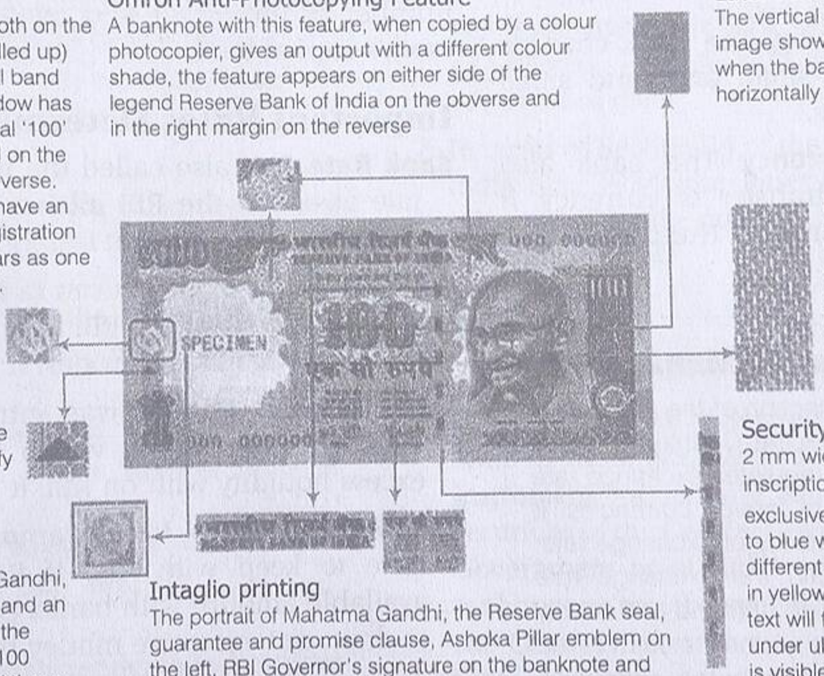
Coins are minted by the Government of India. RBI is the agent of government for distribution, issue and handling of coins. Four mints are operation at Mumbai, Noida in Uttar Pradesh, Kolkata and Hyderabad.

Printing of Securities and Minting in India

Security Press	Station	Related by
Currency Notes Press (1928)	Nasik	Bank notes from ₹ 1 to 100
Security Paper (Established 1967-68)	Hoshangabad	Banks and currency notes paper
Bank Notes Press (1974)	Dewas	Bank notes of ₹ 20,50,100 and 500
Security Notes Printing Press (Established 1982)	Hyderabad	Union excise duty stamps
India Security Press Nasik (1992)		Postal material, postal stamps etc

Security Features of Rupee

Obverse (Front) Side



See through Register
The floral design printed both on the front (hollow) and back (Filled up) in the middle of the vertical band next to the watermark window has the denominational numeral '100' Half the numeral is printed on the obverse and half on the reverse. Both the printed portions have an accurate back to back registration so that the numeral appears as one when viewed against light.

Omron Anti-Photocopying Feature
A banknote with this feature, when copied by a colour photocopier, gives an output with a different colour shade, the feature appears on either side of the legend Reserve Bank of India on the obverse and in the right margin on the reverse

Latent Image
The vertical band contains latent image showing the numeral 100 when the banknote is held horizontally at eye level.

Micro lettering
The letters, 'RBI', and the numeral, '100' can be viewed with the help of a magnifying glass in the zone between the Mahatma Gandhi portrait and the vertical band.

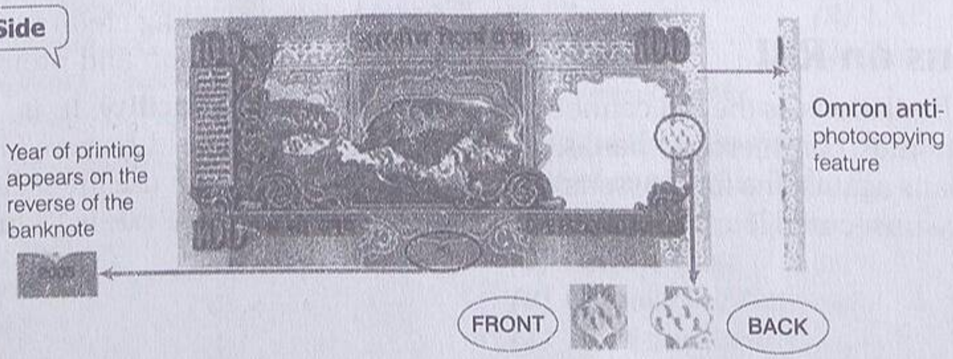
Identification Mark
A triangle with improved intaglio print that helps the visually impaired to identify the denomination.

Security Thread
2 mm wide security thread with inscriptions 'भारत' and 'RBI' and exclusive colour shift from green to blue when viewed from different angles. It will fluoresce in yellow on the reverse and the text will fluoresce on the obverse under ultraviolet light.The thread is visible as a continuous line from behind when held up against light.

Watermark
The portrait of Mahatma Gandhi, the multi-directional lines and an electrolyte mark showing the denominational numeral 100 appear in this section and these can be viewed better when the banknote is held against light.

Intaglio printing
The portrait of Mahatma Gandhi, the Reserve Bank seal, guarantee and promise clause, Ashoka Pillar emblem on the left, RBI Governor's signature on the banknote and the identification mark for the visually impaired persons are printed in intaglio, *i.e.*, in raised prints, which can be felt touch.

Reverse (Back) Side



Year of printing appears on the reverse of the banknote

Omron anti-photocopying feature

Other Functions

Besides the above stated specific functions, the Reserve Bank of India performs *the following other functions*

Export Assistance Reserve Bank gives loans to the export industries. These loans are given indirectly by refinancing the loans given by Export Import Bank and other banks.

Clearing House Functions Being Central Bank of the country, the Reserve Bank also functions as clearing house. Inter-banking obligations are conveniently settled through this house.

Change of Currency The bank changes big notes into small ones and small notes into coins.

Transfer of Currency The bank also facilitates the transfer of currency. It also issues demand Hundies on its branches.

Foreign Exchange Management

It is an essential function of the RBI. Being the Central Bank of the Country, Reserve Bank of India also regulates exchange rate of rupee in terms of foreign currencies. It tries to maintain stability of exchange rate. In order to maintain the exchange rate stability, it has to bring demand and supply of the foreign currency close to each other. Reserve Bank deals with the currencies of only those countries which are members of IMF.

Limitations on RBI

It has certain limitations as the RBI cannot functions as the commercial banks, cannot give loans against the fixed asserts. RBI cannot give unsecured loans to others.

Capital Adequacy Ratio (CAR)

Percentage ratio of a financial institution's primary capital to its assets (loans and investment), used as a measure of its financial strength and stability.

Tier 1 and Tier 2 Capital

These are as follows

Tier 1 Capital is the core measure of bank's financial strength from a regulator's point of view. It is composed of core capital, which consists primarily of common stock and disclosed reserves (or retained earnings), but may also include non-redeemable non- cumulative preferred stock.

Tier 2 Capital or supplementary capital, include a number of important and legitimate constituents of a bank's capital base.

Important Rates Determined by RBI

Bank Rate It is also called the rediscount rate. It is the rate at which the RBI allows finance to commercial banks. Currently it is at 9%.

Repo Rate It was introduced in December, 1992 by RBI. It is the rate at which RBI lends short- term money to the banks against securities. It is currently at 8%

Reserve Repo Rate It was introduced in November, 1996. It is the rate at which banks park short-term excess liquidity with on RBI. It is currently at 7%.

Cash Reserve Ratio It is the amount of funds that banks have to keep with RBI. If RBI increases CRR, the available amount with banks comes down, RBI uses it to drain out excessive money from the banks.

Statutory Liquidity Ratio It is the amount which a commercial bank is required to maintain in the form of cash or gold or government approved securities (bonds) before providing credit to its customers. SLR is used to control inflation and promote growth.

Marginal Standing Facility It is the rate at which scheduled banks could borrow funds overnight from RBI. In MSF, banks can use the securities under 'SLR' to get loans from RBI. MSF rate is 1% higher than repo rate.

Question Bank

1. Under Section 19 of the Reserve Bank of India Act, 1934, the RBI has been prohibited from
   (1) making loans or advances **(IBPS BO 2010)**
   (2) drawing or accepting bills payable otherwise than on demand
   (3) allowing interest on deposits or current accounts
   (4) All of the above
   (5) None of the above

2. Section 31 (2) of the Reserve Bank of India Act, 1934 prohibits of making or issuing of a expressed to be payable to bearer thereof
   (1) cheque
   (2) bill of exchange
   (3) promissory note
   (4) demand draft
   (5) None of these

3. Drawing, accepting, making or issuing of any promissory note, hundi or bill of exchange expressed to be payable to bearer on demand by a person other than the Reserve Bank of India or the Central Government is prohibited under
   (1) Banking Regulation Act, 1949
   (2) Section 31 (1) of the Reserve Bank of India Act, 1934
   (3) Negotiable Instruments Act, 1881
   (4) Indian Contract Act, 1872
   (5) None of the above

4. Rupee coins are the legal tender in India under the provisions of **(IBPS PO 2011)**
   (1) Reserve Bank of India Act, 1934
   (2) Negotiable Instruments Act, 1881
   (3) Banking Regulation Act, 1949
   (4) Indian Coinage Act, 1906
   (5) None of the above

5. In India, the system of decimal coinage was introduced on **(Bank PO 2010)**
   (1) 15th August, 1947
   (2) 26th January, 1950
   (3) 1st April, 1957
   (4) All of the above
   (5) None of the above

6. Sub-section 12AB of Section 17 of the Reserve Bank of India Act, 1934 defines the term as an instrument for borrowing funds by selling securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed?
   (1) Bank rate
   (2) LAP
   (3) Repo
   (4) Reverse repo
   (5) None of these

7. In terms of Section 24 of the Reserve Bank of India Act, 1934, the Reserve Bank of India may issue bank notes for the maximum denomination of
   (1) ₹ 500
   (2) ₹ 5000
   (3) ₹ 10000
   (4) ₹ 1000
   (5) None of these

8. Sub-section 12AB of Section 17 of the Reserve Bank of India Act, 1934 defines the term an instrument for lending funds by purchasing securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities with an agreement to reseel the said securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.
   (1) Bank rate
   (2) LAP
   (3) Repo
   (4) Reverse repo
   (5) None of these

9. Which of the following is the sale authority for issue of currency in India ?
   (1) Government of India
   (2) Reserve Bank of India
   (3) Controller of Currency
   (4) All of the above
   (5) None of the above

10. The minting of rupee coin is governed by
(1) Coinage Act, 1906
(2) Reserve Bank of India Act, 1934
(3) Banking Regulation Act, 1949
(4) Currency Act, 1902
(5) None of the above

11. One rupee notes and coins are issued by
(1) Reserve Bank of India
(2) State Bank of India on behalf of Government of India
(3) Government of India
(4) Finance Minister of Central Government
(5) None of the above

12. Bank rate policy, open market operations, variable reserve requirements and statutory liquidity requirements employed by Reserve Bank as measures of credit control are classified as **(IBPS PO 2011)**
(1) quantitative methods
(2) qualitative methods
(3) Both of the above
(4) All of the above
(5) None of the above

13. Which of the following instruments of credit control adopted by Reserve Bank of India does not fall within 'general' or 'quantitative' methods of credit control?
(1) Stipulation of certain minimum margin in respect of advance against specified commodities
(2) Open market operations
(3) Bank rate
(4) Variable reserve requirements
(5) None of the above

14. The opening of branches by banks is governed by the provisions of
(1) Section 23 of the Banking Regulation Act, 1949
(2) Section 24 of Reserve Bank of India Act, 1934
(3) Section 131 of the Negotiable Instruments Act, 1881
(4) Section 45 of Bank Nationalisation Act, 1969
(5) None of the above

15. Which of the following fall under the qualitative methods of credit control adopted by Reserve Bank of India ?
(1) Selective Credit Control
(2) Credit Authorisation Scheme
(3) Moral Suasion
(4) All of the above
(5) None of the above

16. The term 'moral suasion' refers to
(1) the moral duty of a borrower to deal with only one bank
(2) the banker's duty of secrecy as regards the affairs and accounts of his customers
(3) the advice given by Reserve Bank to banks/financial institutions in the matter of their lending land other operations with the objective that they might implement or follow it
(4) All of the above
(5) None of the above

17. Bank rate means
(1) the rate of interest charged by commercial banks on advances
(2) the rate at which commercial banks discount bills of exchange for their clients
(3) the rate of interest allowed by banks on the deposits
(4) the standard rate at which the Reserve Bank of India is prepared to buy or rediscount bills of exchange other commercial paper eligible for purchase under the Reserve Bank of India Act, 1934.
(5) None of the above

18. The monetary authority in India, *viz* Reserve Bank of India, is bound to maintain a reserve against the notes issued, whatever may be the amount. This system is called is
(1) minimum reserve system
(2) proportional reserve system
(3) maximum fiduciary issue system
(4) simple deposit system
(5) None of the above

19. Banks and other financial institutions in India are required to maintain a certain amount of liquid assets like cash, precious metals and other short-term securities as a reserve all the time in banking world, this is known as
(1) CRR
(2) Fixed asset
(3) SLR
(4) PLR
(5) None of these

20. The term 'Currency of India' refers to
- *(1)* one rupee notes and coins
- *(2)* bank notes issued by Reserve Bank of India *viz.*, ₹ 2, ₹ 5, ₹ 10, ₹ 20, ₹ 50, ₹ 100 and for other higher denominations
- *(3)* one rupee notes and coins and bank notes issued by Reserve Bank of India
- *(4)* one rupee notes only
- *(5)* None of the above

21. Reverse Repo is a tool used by RBI to
(IBPS PO 2010)
- *(1)* inject liquidity
- *(2)* absorb liquidity
- *(3)* increase the liquidity with banking system
- *(4)* to keep the liquidity at one level
- *(5)* None of the above

22. The ratio of the Cash Reserves that the banks are required to keep with the RBI is known as
- *(1)* Liquidity Ratio
- *(2)* SLR
- *(3)* CRR
- *(4)* Net Demand and Time Liability
- *(5)* None of the above

23. The term 'Ways and Means' advances refers to
- *(1)* the advances allowed under DRI Scheme by commercial banks
- *(2)* the advances allowed by commercial banks under Twenty Point Economic Programme
- *(3)* the temporary advances made to the government by its bankers to bridge the interval between expenditure and the flow of receipts of revenues
- *(4)* All of the above
- *(5)* None of the above

24. The rate of interest banks charge its main/major and prime customers is popularly called as
- *(1)* Risk Premium
- *(2)* Prime Lending Rate
- *(3)* Repo Rate
- *(4)* Reverse Repo Rate
- *(5)* Cost of fund

25. What is Repo Rate? **(IBPS PO 2010)**
- *(1)* It is a rate at which RBI sell government securities to banks
- *(2)* It is a rate at which RBI buys government securities from banks
- *(3)* It is a rate at which RBI allows small loans in the market
- *(4)* It is a rate which is offered by Banks to their most valued customers or prime customers
- *(5)* None of the above

26. The term 'BSR' refers to
- *(1)* Bank's Selling Rate
- *(2)* Basic Statistical Returns
- *(3)* Annual returns submitted by banks to RBI in respect of priority sector advances
- *(4)* Quarterly statement of advances to agriculture
- *(5)* None of the above

27. One rupee notes bear the signature of
- *(1)* Governor of Reserve Bank of India
- *(2)* Prime Minister of India
- *(3)* President of India
- *(4)* Secretary, Ministry of Finance (Government of India)
- *(5)* None of the above

28. The note-issue system in India is based on
- *(1)* Gold Deposit System
- *(2)* Minimum Reserve System
- *(3)* Proportional Reserve System
- *(4)* Simple Deposit System
- *(5)* None of the above

29. The Indian rupee is a
- *(1)* token coin
- *(2)* standard-token coin
- *(3)* standard coin
- *(4)* gold coin
- *(5)* None of the above

30. The currency notes are issued by the Reserve Bank of India under the signature of
- *(1)* Executive Director
- *(2)* Deputy Governor
- *(3)* Governor
- *(4)* Secretary
- *(5)* None of the above

31. Which of the following training establishment is not run by Reserve Bank of India?
- *(1)* Bankers Training College, Bombay
- *(2)* College of Agricultural Banking, Pune
- *(3)* NIBM
- *(4)* All of the above
- *(5)* None of the above

32. In periods of depression when the Reserve Bank desires to encourage the banking system to create more credit it

(*1*) reduces the bank rate
(*2*) raises the bank rate
(*3*) permits the bank rate to be decided by market forces
(*4*) All of these (*5*) None of these

33. For the performance of its duties as the regulator of credit, the Reserve Bank of India possesses the usual instruments of general credit control, *viz.*

(*1*) bank rate
(*2*) open market operation
(*3*) the power to vary the reserve requirement of banks
(*4*) All of these (*5*) None of these

34. When the Reserve Bank desires to restrict expansion of credit it

(*1*) raises the bank rate
(*2*) reduces the bank rate
(*3*) freezes the bank rate
(*4*) None of these (*5*) All of these

35. The currency notes issued by RBI have a cent per cent cover in

(*1*) approved assets (*2*) gold
(*3*) foreign exchange (*4*) trustee securities
(*5*) None of these

36. Which of the following do not fall within the functions of the Reserve Bank of India?

(*1*) Regulation of currency
(*2*) Control of credit
(*3*) Banker to the government, banker's bank and lender of the last resort
(*4*) Accepting deposits and making loans and advances to public
(*5*) None of the above

37. Which of the following are the main functions of the Reserve Bank of India ?

(*1*) Granting licences to commercial banks for opening branches in rural areas
(*2*) Accepting deposits from the public
(*3*) Regulating foreign exchange business
(*4*) Acting as note issuing authority, bankers' bank and banker to the government
(*5*) None of the above

38. The approved assets against which currency notes are issued by RBI comprise of

(*1*) gold coin and bullion and rupee coin
(*2*) foreign securities and Government of India rupee securities of any maturity
(*3*) bills of exchange and promissory notes payable in India which are eligible for purchase by RBI
(*4*) All of the above
(*5*) None of the above

39. The Public Debt Office of the Reserve Bank of India

(*1*) is a central depository for all types of Government securities except Treasury Bills
(*2*) attends to the function of note issue the Reserve Bank of India
(*3*) is responsible for maintaining external value of rupee
(*4*) controls balance of payment position of the Government of India
(*5*) None of the above

40. RBI has directed banks that the exercise of verification of asset classification and income recognition should be done as part of the audit work by the branch and statutory Auditors effective from the year ending **(Bank PO 2010)**

(*1*) 31st March, 1993
(*2*) 31st March, 1994
(*3*) 31st March, 1995
(*4*) 31st March, 1996
(*5*) None of the above

41. Which of the following are the instruments of Credit Control in the hands of the RBI?

I. Lowering or raising the discount and interest rates.

II. Raising the minimum support price of the major agro products.

III. Lowering or raising the minimum cash reserves maintained by the commercial banks.

Select the correct answer using the codes given below

(*1*) Only I (*2*) Only II
(*3*) Only III (*4*) Both I and III
(*5*) Both II and III

42. RBI's open market operation transactions are carried out with a view to regulate
(1) liquidity in the economy
(2) prices of essential commodities conflation
(3) borrowing power of the banks
(4) All of the above
(5) None of the above

43. The stance of RBI monetary policy is
(1) inflation control with adequate liqidity for growth
(2) improving credit quality of the banks
(3) strengthening credit delivery mechanism
(4) supporting investment demand in the economy
(5) All of the above

44. Which of the following is not a function of the RBI? **(Bank PO 2010)**
(1) Maintaining Forex
(2) Deciding Bank Rate, CRR and SLR from time to time
(3) Opening Savings Accounts for general public
(4) Prescribing the Capital Adequancy Ratio
(5) Currency Management

45. What does the letter 'L' denote in the term 'LAF' as referred every now and then in relation to monetary policy of the RBI?
(1) Liquidity
(2) Liability
(3) Leveraged
(4) Longitudinal
(5) Linear

46. Which of the following is not a measure adopted by the Government or RBI to control inflation?
(1) Monetary policy
(2) Fiscal policy
(3) Public distribution system
(4) Price control
(5) Financial inclusion

47. Whenever RBI does some Open Market Operation transactions, actually it wishes to regulate which of the following?
(1) Inflation only
(2) Liquidity in economy
(3) Borrowing powers of the banks
(4) Flow of foreign direct investments
(5) None of the above

48. Interest rates on which of the following deposit schemes is fixed by the Reserve Bank of India?
(1) Fixed deposits above 5 years' maturity
(2) Recurring deposits
(3) Savings bank
(4) Flexi Deposit Scheme
(5) None of the above

49. Which of the following are decided by the Reserve Bank of India?
I. Deposit rates
II. Base Rate
III. Prime Lending Rate

Select the correct answer using the codes given below
(1) Only I
(2) Only II
(3) Only III
(4) II and III
(5) None of these

50. RBI has recently deregulated the rates of interest to be provided by various banks to their depositors/customers with effect from 25th October, on their accounts.
(1) Time deposit
(2) Saving bank
(3) Loan
(4) Fixed deposit
(5) Current

51. Which of the following functions are not being performed by the Reserve Bank of India?
(1) Regulation of banks in India
(2) Regulation of foreign direct investment in India
(3) Foreign currency management in India
(4) Control and supervision of money supply
(5) Currency management in India

52. Which of the following is not a function of the Reserve Bank of India?
(1) Fiscal policy functions
(2) Exchange control functions
(3) Insurance, exchange and destruction of currency notes
(4) Monetary authority functions
(5) Supervisory and control function

53. The Reserve Bank of India has directed all the banks to ensure that the names of their customers, individuals or corporate, do not appear in any list published by the Security Council Committee. This act/directive of the RBI is to ensure which of the following?

(1) To ensure that the bank loans/advances taken by the individuals/organisations are used only in those activities for which they are taken
(2) To ensure that money deposited in the bank has not come from unknown and unauthorised sources
(3) To ensure that no one visits a foreign nation for any illegal activity by purchasing foreign currency from a bank
(4) To ensure that Indians do not go to a nation where they are being targeted for racial discrimination
(5) None of the above

54. As per newspaper reports, inflation in India and China was at a very high level. In such a situation the Central Banks of these countries are required to follow
(1) a more liberal credit policy
(2) a very tight credit policy
(3) create an atmosphere of easy liquidity in the market
(4) raise the limits of personal and corporate income taxes
(5) None of the above

55. As we all know, banks in India are required to maintain a portion of their demand and time liabilities with the Reserve Bank of India. This portion is called
(1) statutory liquidity ratio
(2) cash reserve ratio
(3) bank deposit (4) reverse repo
(5) government securities

56. Reserve Bank of India is the lender of the last resort to scheduled commercial banks because
(1) the parties can approach RBI when their limits are exhausted
(2) they are not able to get loans from other banks
(3) RBI meets directly or indirectly all their reasonable demands for financial accommodation subject to certain terms and conditions which constitute its discount rate policy
(4) All of these (5) None of these

57. Banks without the prior approval of the RBI, can not
(1) one a new place of business in India or abroad
(2) shift other wise that within the same centers (city/town/village) of the existing place of business
(3) shift their sole rural branch outside the centre/village is not permitted, as such shifting would render the centre unbanded
(4) All of the above
(5) None of the above

58. The interest rate at which the RBI lends to commercial banks in the short term to maintain liquidity is known as
(1) interest rate
(2) repo rate
(3) reverse repo rate
(4) bank rate
(5) None of the above

59. Who is the final authority for deciding the design, form and material of bank notes?
(1) Central Government
(2) Reserve Bank of India
(3) Indian Banks Association
(4) Note Issuing Authority of India
(5) None of the above

60. The bank rate is
(1) free to fluctuate according to the forces of demand and supply
(2) set by the RBI
(3) set by the RBI is directed by the Union Ministry of Finance
(4) set by the RBI as advised by the Indian Banks Association
(5) set by the Government of India on the recommendation of the Planning Commission

61. As per the reports in various newspapers many private companies are trying to obtain the licences to launch a banking company in India. Which of the following organisations/agencies issue the licence for the same?
(1) Securities and Exchange Board of India (SEBI)
(2) Indian Institute of Banking and Finance (IIBF)
(3) Indian Banks' Association
(4) Registrar of Companies
(5) None of the above

62. Many times we read a term 'Hot Money' in newspapers. What is/are the characteristics of Hot Money?

I. The term is used for fresh currency notes issued by the RBI.
II. It is the fund which flows in the market to take advantage of high interest rates.
III. It is the fund which is thrown in the market to create imbalance in the stock markets.

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) Only III
(4) All of these
(5) None of these

63. What are the cooperative banks at the village level known as?

(1) Central cooperative banks
(2) Primary agricultural cooperative societies
(3) Village cooperative banks
(4) State cooperative banks
(5) None of the above

64. Which of the following would result in a fall in asset prices?

(1) Low liquidity in the economy
(2) High liquidity in the economy
(3) RBI increasing the Reserve Repo Rates
(4) RBI allowing more banks to play
(5) None of the above

65. As per reports in the newspapers the Indian Rupee is appreciating these days. What does it really mean?

I. The value of the Rupee has gone up. It is now 110 paise and not 100 paise.
II. The exchange rate of Rupee has gone up.
III. Now we can purchase more in one Rupee, Which was not possible earlier?

(1) Only I
(2) Only II
(3) Only III
(4) Both I and II
(5) None of these

66. A customer wishes to purchase some US dollars in India. He/she should go to

(1) Public Debt Division of the RBI only
(2) American Express Bank Only
(3) RBI or any branch of a Bank which is authorised for such business
(4) Ministry of Foreign Affairs
(5) None of the above

67. Consider the following **[Corporation Bank 2011]**

I. Bank Rate Policy
II. Open Market Operations
III. Devaluation of Rupee

Which of the above are called fiscal measures?

(1) Only II
(2) Both I and II
(3) Both I and III
(4) Only III
(5) None of these

68. The names of which of the following rates/ratios cannot be seen in financial newspapers?

(1) Bank Rate
(2) Repo Rate
(3) Statutory Liquidity Ratio
(4) Cash Reserve Ratio
(5) Pulse Rate

69. Prior approval (as also a licence) of RBI is required for opening

(1) personal banking branches
(2) merchant banking branches
(3) asset recovery branches
(4) All of the above
(5) None of the above

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1. (4)	2. (3)	3. (2)	4. (4)	5. (3)	6. (3)	7. (3)	8. (4)	9. (2)	10. (1)
11. (3)	12. (1)	13. (1)	14. (1)	15. (4)	16. (3)	17. (4)	18. (2)	19. (3)	20. (1)
21. (2)	22. (3)	23. (4)	24. (2)	25. (2)	26. (2)	27. (4)	28. (2)	29. (2)	30. (3)
31. (3)	32. (1)	33. (4)	34. (1)	35. (1)	36. (4)	37. (4)	38. (4)	39. (1)	40. (2)
41. (4)	42. (5)	43. (5)	44. (3)	45. (1)	46. (5)	47. (2)	48. (3)	49. (1)	50. (2)
51. (2)	52. (1)	53. (3)	54. (2)	55. (2)	56. (3)	57. (4)	58. (2)	59. (1)	60. (2)
61. (5)	62. (2)	63. (2)	64. (1)	65. (2)	66. (3)	67. (4)	68. (5)	69. (4)	

Chapter
3

Origin *and* Development *of* Banking in India

History of Banking in India

Globally, the story of banking has much in common, as it evolved with the moneylenders accepting deposits and issuing receipts in their place. Banking was fairly varied and catered to the credit needs of the trade, commerce, agriculture as well as individuals in the economy.

The pre-independence period was largely characterised by the existence of private banks organised as joint stock companies. Most banks were small and had private shareholding of the closely held variety. They were largely localised and many of them failed.

The period from 1967 to 1991 was characterised by major developments, *viz.*, social control on banks in 1967 and nationalisation of 14 banks in 1969 and 6 more in 1980.

The period beginning from the early 1990s witnessed the transformation of the banking sector as a result of financial sector reforms that were introduced as a part of structural reforms initiated in 1991.

We can summaries the origin of banking in India in the following ways

Early Phase of Indian Banks, from 1786 to 1969

- The **first bank in India, the General Bank of India**, was set-up in 1786. Bank of Hindustan and Bengal Bank followed.
- The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called them Presidency banks. These three banks were amalgamated in 1920 and the Imperial Bank of India, a bank of private shareholders, mostly Europeans, was established.
- Allahabad Bank was established, exclusively by Indians, in 1865.
- Punjab National Bank was set-up in 1894 with headquarters in Lahore.

- Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank and Bank of Mysore were set-up.
- The Reserve Bank of India came in 1935.
- To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949, which was later changed to the Banking Regulation Act, 1949.

Banking Sector Reforms from 1969 to 1991

- In 1955, government nationalised the Imperial Bank of India and started offering extensive banking facilities, especially in rural and semi-urban areas.
- The government constituted the State Bank of India to act as the principal agent of the RBI and to handle banking transactions of the Union Government and State Governments all over the country.
- 7 banks owned by the Princely states were nationalised in 1959 and they became subsidiaries of the State Bank of India. In 1969,14 commercial banks in the country were nationalised.
- In the phase of banking sector reforms, 7 more banks were nationalised in 1980. With this, 80% of the banking sector in India came under the government ownership.

New Phase of Indian Banking System, Reforms after 1991

- This phase has introduced many more products and facilities in the banking sector as part of the reforms process.
- In 1991, under the chairmanship of **M Narasimham**, a committee was set-up, which worked for the liberalisation of banking practices.
- In this phase, the country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers.
- Phone banking and net banking are introduced. The entire system became more convenient and swift. Time is given importance in all money transactions.

Nationalisation of Banks

The nationalisation of commercial banks took place with an aim to achieve Social Welfare, Controlling Private Monopolies, Expansion of Banking, Reducing Regional Imbalance, Priority Sector Lending and Developing Banking Habits.

In order to have more control over banks, in **19th July, 1969** Mrs Indira Gandhi the then Prime Minister nationalised **14 large** commercial banks whose reserves were more than ₹ 50 crore. The main aim of nationalising was to reach clients in rural areas and provide them with more quality services.

Following is the list of banks, which got nationalised at this time

1. Allahabad Bank
2. Bank of Baroda
3. Bank of India
4. Bank of Maharashtra
5. Central Bank of India
6. Canara Bank
7. Dena Bank
8. Indian Bank
9. Indian Overseas Bank
10. Punjab National Bank
11. Syndicate Bank
12. UCO Bank
13. Union Bank
14. United Bank of India

In **15th April, 1980** the banks with more than ₹ 200 crore of reserves got nationalised.

Those six banks, which got nationalised are the following

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Commerce
5. Punjab and Sindh Bank
6. Vijaya Bank

Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalised banks.

Amalgamation of Private Bank into Commercial Bank

Private Bank	Commercial Bank
Bank of Bihar	State Bank of India (1969)
Laxmi Commercial Bank	Canara Bank (1984-85)
Bank of Cochin	State Bank of India (1984-85)
Hindustan Commercial Bank	PNB (1986)
Giraj State Bank	Union Bank of India (1988)
Bank of Carnal	Bank of India (1993-94)
Times Bank	HDFC Bank (1999)
Banaras State Bank	Bank of Baroda (2002)
ICICI	ICICI Bank (2002)
Naidunagari Bank	Punjab National Bank (2003)
South Gujarat Local Area Bank	Bank of Baroda (2004)
Global Trust Bank	Oriental Bank of Commerce (2004)
Bharat Overseas Bank	India Overseas Bank (2006)
Bank of Credit Commerce	SBI
Bank of Tamil Nadu	India Overseases Bank

Banking Structure in India

Indian banking industry has been divided into parts, **organised** and **unorganised** sectors. The organised sector consists of Reserve Bank of India, Commercial Banks and Co-operative Banks and Specialised Financial Institutions (ICICI, IFC etc).

Commercial Banks

This is a financial institution providing services for businesses, organisations and individuals. Services include offering current, deposit and saving accounts as well as giving out loans to businesses. A commercial banks is defined as a bank whose main business is deposit-taking and making loans. This contrasts with an investment bank whose main business is securities underwriting, mergers and acquisitions advisory, asset management and securities trading. Commercial bank may be Scheduled Commercial Bank and Non-Scheduled Commercial Bank.

Scheduled Commercial Banks

'Scheduled Bank' is defined by Section 5(1) (m) of the Banking Companies Act, 1949 as "a bank for the time being included in the Second Schedule to the Reserve Bank of India Act, 1934". Scheduled banks are those banks whose minimum paid up capital and reserve and amount to ₹ 25 lakh. These bank have to submit details of their activities to the Reserve Bank of India every week.

Non-Scheduled Commercial Banks

Non-scheduled banks are depository or lending institutions that do not meet the Second Schedule of Reserve Bank of India Act. These banks may be legal entities, but they do not have procedural endorsement of the government. Non-scheduled banks are not just identified as banks that do not meet the criteria in the Second Schedule of the 1934 Act; they are defined in Section 5, Clause C of the Banking Regulation Act of 1949.

Functions of Commercial Banks

The main functions of commercial banks are as follows

Received Deposits

The most important activity of a Commercial Bank is to mobilise deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with bank also earn interest. Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank. Some important account under received deposits.

Current Account

It is a calculation of a country's foreign transactions and alongwith the capital account is a component of a country's balance of payment. The current account also includes net income, such as interest and dividends, as well as transfers, such as foreign aid, though these components tend to make up a smaller percentage of the current account than exports and imports.

Saving Account

It is generally opened in bank by salaried persons or by the persons who have a fixed regular income. This facility is also given to students, senior citizens, pensioners and so on.

Saving accounts are opened to encourage the people to save money and collect their savings. The saving account holder is allowed to withdraw money from the account as and when required. The interest which is given on saving accounts is sometime attractive, but often nominal.

Difference between Saving Account and Current Account

Basis of Difference	Savings Account	Current Account
Purpose	To encourage saving	Many transaction
Ideal for	Salarised person	Business person
Minimum Amount	Less amount	Heigher amount (depending on the bank)
Interest Rates	4% - 6%	Normally, no interest is paid
Overdraft	Not Allowed	Allowed

Fixed Account

A deposit of money that pays higher interest than a savings account, but imposes conditions on the amount, frequency, and/or period of withdrawals. Also called time deposit. All these accounts are secure and carry a government guarantee.

Cash Credit Account

It will be opened as per terms and conditions of sanction of such credit limits. The rules prescribed for the current accounts will also apply to Cash Credit accounts, in addition to the sanctioned terms and conditions.

Recurring Deposit Account

In banking terminology, the term recurring deposit refers to the periodic placement of a fixed sum of funds with a bank or financial institution into a special term account, with a specified tenure, generally between 1 and 5 years. At the end of the tenure, the funds are typically withdrawn by the depositor with accrued interest.

To Lend Money

The second important function of a Commercial Bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts.

The rate of interest charged on loans and advances varies depending upon the purpose, period and the mode of repayment. The difference between the rate of interest allowed on deposits and the rate charged on the loans is the main source of a bank's income.

Type of loan of commercial bank are given below

- Overdraft
- Debt and loan
- Retrenchment of exchange bills
- Cash credit
- Investment in public securities

Agency Functions

Agency functions include the following

- Collection of cheques, dividends and interests
- Payment of rent, insurance premiums
- Dealing in foreign exchange
- Purchase and sale of securities
- Act as trustee, executor, attorney etc
- Act as correspondent
- Preparations of Income-Tax returns

Miscellaneous Functions

These are as follows

- Issuing letters of credit, travellers cheques, circular notes etc.
- Undertaking safe custody of valuables, important documents and securities by providing safe deposit vaults or lockers.
- Providing customers with facilities of foreign exchange.
- Transferring money from one place to another; and from one branch to another branch of the bank.
- Standing guarantee on behalf of its customers, for making payments for purchase of goods, machinery, vehicles etc.
- Collecting and supplying business information;
- Issuing demand drafts and pay orders;
- Providing reports on the credit worthiness of customers.

Non-Performing Asset (NPA)

A classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset. Also known as 'non-performing loan'. Non-performing assets are problematic for financial institutions since they depend on interest payments for income. Troublesome pressure from the economy can lead to a sharp increase in non-performing loans and often results in massive write-downs.

Value Added Services

Value added services provided by Commercial Bank are as follows

- Safe deposit locker facility
- Travellers cheques
- Premium of insurance
- E-banking facilities
- Anywhere banking
- ATM facilities
- Credit card facilities
- ATM debit card facilities

Tit-Bits

- The average population per branch office has sharply declined from 64000 in 1969 to 13000 today.
- Within the banking system, Public Sector Banks (PSB) continue to dominate with 73% of market share of assets and 83% of branches.
- Base rate (floor rate for lending) introduced (July 2010). Prescription of an interest rate floor on savings deposit rate withdrawn (October 2011).
- Strengthening of Know Your Customer (KYC) and Anti-Money Laundering (AML) norms; making banking less prone to financial abuse.

Private Banks

Private Banks are banks owned by either an individual or a general partner with limited partner. But licence provided by Reserve Bank of India.

Some Leading Private Banks

Bank of Private Sector	Head Office	Establish Year
Indusind Bank	Pune	1994
Global Trust Bank	Sikandrabad	1994
ICICI Bank	Vadodara	1994
Axis Bank Ltd	Ahmedabad	1994
Centurion Bank	Panji	1995
Bank of Punjab	Chandigarh	1995
HDFC Bank	Mumbai	1995
Yes Bank	Mumbai	2004

Other Types of Bank

Following are other types of bank

Agricultural Bank

A Agricultural Bank may, in particular undertake the following types of business, undertake the following type of business, namely (a) the graffing of loans and advances, particularly to small and marginad formers and agricultural labourers, whether individual or in groups and to co-operative societies for agricultural purposes or agricultural operations or for other connected purposes and (b) the granting of loans and advances, particularly to artisams, small outrepreneures and purpose of small mean engaged intrade, commerce or industry or other productive activities within the notified area of a agricultrual banks.

Post Office Saving Bank

It is a bank which accepts deposit of small amount only and provide the withdrawal facilities to their own costumer. ATM facilities also available in this bank.

Foreign Exchange Banks

The foreign exchange banks works through financial institutions and it operates on several levels. Behind the scenes banks turn to a smaller number of financial firms known as 'dealers,' who are actively involved in large quantities of foreign exchange trading.

Indigenous Banks

Indigenous banks mean Local Area Banks (LABs). These are banks with features distinct from public sector, private sector, nationalised banks. These banks basically aims to cater to the needs of the local, area specific banking reeds.

Bankers

One who conducts the business of banking; one who, individually or as a member of a company, keeps an establishment for the deposit or loan of money or for traffic in money, bills of exchange etc.

Industrial Bank

A financial institution with a limited scope of services. Industrial banks sell certificates that are labelled as investment shares and also accept customer deposits.

They then invest the proceeds in installment loans for consumers and small businesses. These banks are also known as Morris banks or industrial loan companies.

Foreign Banks in India

Bank's Name	Related Country
Bank International Indonesia	Indonesia
Abu Dhabi Commercial Bank Ltd	UAE
American Express Bank Ltd	America
Standard Chartered Bank Ltd	Britain
Crang Thai Bank Public Company Ltd	Thailand
Mizuho Co-operate Bank Ltd	Japan
Bank of Bahrain and Kuwait	Bahrin
Bank of Tokiyo-Mitsubishi UFJ Ltd	Japan
Bank of Nova Scotia	Canada
China trust Commercial Bank	Taiwan
JP Morgan Chases Bank	America
Bank of America	America
Oman International Bank	Oman
State Bank of Mauritius	Mauritius
Arab Bangaladesh Bank Ltd	Bangaladesh
Sonali Bank Ltd	Bangladesh
City Bank	America
Berkeley's Bank PLC	Britain
ABN-Aomro Bank	Holand (Dutch)
DBS Bank Ltd	Singapore
Society General Bank	France
HSBC	Hongkong
Shinhan Bank	South Korea
Deutsche Bank	Germany
Bank of Cilon	Sri Lanka
Mashreq Bank Ltd	UAE
BNP Paribas	France
Antwerp Diamond Bank	Belgium
Calyon Bank	France

State Bank of India and its Associate Banks

On the recommendation of All India Rural Credit Survey Committee, Imperial Bank was nationalised to become State Bank of India on 1st July, 1955. Its 92% capital is owned by the Reserve Bank and 8% by the old shareholders of Imperial Bank and others. This bank is thus, not totally a Government Bank, but it is almost fully under the control of the government. On 1st January, 1997 on the direction of government of India and Reserve Bank.

Kashinath Seth Bank Ltd has been amalgamated with the State Bank in 2008 the government took over the stake held by the Reserve Bank of India. State Bank of India (SBI) was previoulsy called Imperial Bank of India in 1921 which was created by amalgamation of 3 Presidency Banks *viz*, Bank of Bengal, Bank of Bombay and Bank of Madras. It was nationalised in 1955. SBI is ranked 292 in the fortune 500 companies.

SBI Associate Banks

- State Bank of Hyderabad
- State Bank of Mysore
- State Bank of Patiala
- State Bank of Bikaner and Jaipur
- State Bank of Travancore

SBI

Industry	Banking, financial services
Founded	1st July, 1955
Headquarters	Mumbai, Maharashtra, India
Area served	Worldwide
Key people	Arundhati Bhattacharya (Chairman)
Products	Credit cards, consumer banking, corporate banking,finance and insurance, investment banking, mortgage loans, private banking, wealth management

Shareholding

Government of India held around 62% equity shares in SBI. Over 800000 individual shareholders hold approx. 5.7% of its shares. Life Insurance Corporation of India is the largest non-promoter shareholder in the company with 10.9% shareholding.

Shareholders	Shareholding
Promoters Government of India	62.31%
Insurance Companies	11.90%
Foreign Institutional Investors	09.79%

Functions of State Bank of India

The functions of SBI can be grouped under two categories, *viz.*, the Central Banking functions and ordinary banking functions. Central Banking Functions The SBI acts as agent of the RBI at the places where the RBI has no branch.

Accordingly, it renders the following functions

- Banker to the government
- Banker to banks in a limited way
- Maintenance of currency chest
- Acts as clearing house
- Renders promotional functions

General Banking Functions

Besides the above specialised functions, the SBI *renders the following functions under Section 33 of the Act*

- Accepting deposits from the public under current, savings, fixed and recurring deposit accounts.
- Advancing and lending money and opening cash credits upon the security of stocks, securities etc.
- Drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable instruments.
- Investing funds, in specified kinds of securities.
- Advancing and lending money to court of wards with the previous approval of State Government.
- Issuing and circulating letters of credit etc.
- The State Bank may with the sanction of the Central Government, enter into negotiations for acquiring the business of any other Banking Institutions.

SBI Agriculture Loan

SBI provides SBI Agriculture loan (term loan) for asset (bullocks, farm machinery, sheep etc.) purchase as well as asset creation (poultry, orchard development, dairy development etc.) which are connected with activities in rural areas and fall under horticulture, agriculture, sericulture, plantation, animal husbandry etc and the loan is to be repaid over a time span of 3 years.

Interest Rate for SBI Agriculture Loan

The rate of interest varies from 8.5% to 12.75% depending on the loan amount and in the extreme cases of very high loan amounts, credit risk assessment is required.

Repayment Period

Repayment period varies from 5-15 years and is based on the income generation of the activity for which the loan was taken.

The Guidelines for New Private Banks

- The bank will open at least 25% of its branches in unbanked rural centres (population up to 9999 as per letest census).
- The bank shall be required to maintain a minimum capital adequacy ratio of 13% for a minimum period of three years after the commencement of its operations subject to such higher percentage, as may be prescribed by the RBI from time to time.
- Convert the NBFC into bank, if all the activities undertaken by it are allowed to be undertaken by a bank departmentally. In this case NBFC shall have minimum networth of ₹ 500 crores.
- The bank should operate on Core Banking Solution (CBS) from the beginning.

Other Important Banks in India

United Bank of India

Headquarters	*Kolkata, West Bengal, India*
Founded	*1950, India*
Nationalisation	*1969*
Punch Line	*The Bank that begins with 'U'*

Regional Rural Bank sponsored by UBI are

- Tripura Gramin Bank
- Assam Gramin Vikash Bank
- Bangiya Gramin Vikash Bank
- Manipur Rural Bank

Union Bank of India

Headquarters	*Mumbai*
Founded	*1919*
Nationalisation	*1969*
Punch Line	*Good People to bank With*

Regional Rural Bank sponsored by Union Bank are

- Rewa Sidhi Gramin Bank
- Kashi Gomti Samyut Gramin Bank

Uco Bank

Headquarters	*Kolkata*
Founded	*1943*
Nationalisation	*1969*
Punch Line	*Honours Your Trust*

Regional Rural Bank sponsored by UCO Bank are

- Bihar Kalpatharu Grameena Bank
- Jaipur Thar Gramin Bank
- Kalinga Gramya Bank
- Mahakaushal Kshetriya Gramin Bank
- Paschim Banga Gramin Bank

Allahabad Bank

Headquarters	*Kolkata*
Founded	*1865*
Nationalisation	*1969*
Punch Line	*Tradition of Trust*

Regional Rural Bank sponsored by Allahabad Bank are

- Sharda Gramin Bank
- Allahabad UP Gramin Bank

Andhra Bank

Headquarters	*Hyderabad*
Founded	*1923*
Nationalisation	*1980*
Punch Line	*Much More to do with You in Focus*

Regional Rural Bank sponsored by Andhra Bank are

- Chhattisgarh Gramin Bank
- Rushikulya Gramya Bank

Bank of Baroda

Headquarters	*Baroda*
Founded	*1908*
Nationalisation	*1969*
Punch Line	*India's International Bank*

Regional Rural Bank sponsored by Bank of Baroda are

- Nainital Almora Kshetriya Bank
- Baroda Gujarat Gramin Bank
- Baroda UP Gramin Bank
- Baroda Rajasthan Gramin Bank
- Jhabua Dhar Kshetriya Gramin Bank

Bank of India

Relationships beyond banking.

Headquarters	*Mumbai*
Founded	*1906*
Nationalisation	*1969*
Punch Line	*Relationships Beyond Banking*

Regional Rural Bank sponsored by Bank of India are

- Narmada Malwa Gramin Bank
- Wainganga Krishna Gramin Bank
- Aryavat Gramin Bank
- Jharkhand Gramin Bank

Bank of Maharashtra

Headquarters	*Pune*
Founded	*1935*
Nationalisation	*1969*
Punch Line	*One family one bank*

Regional Rural Bank sponsored by Bank of Maharashtra is

- Maharashtra Gramin Bank

Canara Bank

"It's easy to Change for those who yoou love together we can"

Headquarters	*Bangalore*
Founded	*1906*
Nationalisation	*1969*
Punch Line	*Serving to grow, growing to serve*

Regional Rural Bank sponsored by Canara Bank are

- Shreyas Gramin Bank
- South Malabar Gramin Bank

Central Bank of India

Headquarters	*Mumbai*
Founded	*1911*
Nationalisation	*1969*
Punch Line	*Build A Better Life Around Us*

Regional Rural Bank sponsored by CBI are

- Ballia Etawah Gramin Bank
- Satpura Narmada Kshetriya Gramin Bank
- Surguja Kshetriya Gramin Bank
- Uttar Banga Kshetriya Gramin Bank
- Uttar Bihar Gramin Bank
- Vidharha Kshetriya Gramin Bank
- Hadoti Kshetriya Gramin Bank

Corporation Bank

Headquarters	*Mangalor*
Founded	*1906*
Nationalisation	*1980*
Punch Line	*Prosperity for All*

Regional Rural Bank sponsored by Corporation Bank is

- Chikmagalur Kodagu Grameena Bank

Dena Bank

Headquarters	*Mumbai*
Founded	*1938*
Nationalisation	*1969*
Punch Line	*Trusted Family Bank*

Regional Rural Bank sponsored by Dena Bank are

- Dena Gujarat Gramin Bank
- Durg Rajnadgaon Gramin Bank

Indian Bank

Headquarters	*Chennai*
Founded	*1907*
Nationalisation	*1969*
Punch Line	*"Taking Banking Technology to Common man, your tech-friendly bank"*

Regional Rural Bank sponsored by Indian Bank are

- Pallavan Grama Bank
- Puduvai Bharthiar Grama Bank
- Saptagiri Grameena Bank

Indian Overseas Bank

Headquarters	*Chennai*
Founded	*1937*
Nationalisation	*1969*
Punch Line	*Good People to Grow with*

Regional Rural Bank sponsored by Overseas Bank are

- Neelachal Gramya Bank
- Pandyan Grama Bank

Oriental Bank of Commerce

Headquarters	*New Delhi*
Founded	*1943*
Nationalisation	*1980*
Punch Line	*Where Every Individual is Committed*

Punjab and Sindh Bank

Headquarters	*New Delhi*
Founded	*1908*
Nationalisation	*1980*
Punch Line	*Where Service is a Way of Life*

Regional Rural Bank sponsored by PSB are- Sutlej Gramin Bank

Punjab National Bank

Headquarters	*New Delhi*
Founded	*1895*
Nationalisation	*1969*
Punch Line	*The Name you can Bank Upon*

Regional Rural Bank sponsored by PNB are

Punjab Gramin Bank

- Rajasthan Gramin Bank
- Sarva UP Gramin Bank
- Haryana Gramin Bank
- Himachal Gramin Bank
- Madhya Bihar Gramin Bank

Syndicate Bank

Headquarters	*Manipal*
Founded	*1925*
Nationalisation	*1969*
Punch Line	*A Faithful and Friendly Financial Partner*

Regional Rural Bank sponsored by Syndicate Bank are

- Andhra Pragathi Gramin Bank
- Gurgaon Gramin Bank
- Karnataka Vikas Gramin Bank

Vijaya Bank

Headquarters	*Bangalore*
Founded	*1931*
Nationalisation	*1980*
Punch Line	*A Friend you can Bank Upon*

Regional Rural Bank sponsored by Vijaya Bank is

- Visveshvaraya Grameena Bank

IDBI Bank

Banking for all, not just for big boys,
Aao Sochein Bada.

Headquarters	*Mumbai*
Founded	*1964*

- In September 2004, the Reserve Bank of India incorporated IDBI as a 'scheduled bank' under the RBI Act, 1934.

Bharatiya Mahila Bank

Headquarters	*New Delhi, India*
Founded	*1913*

- State Ownership Bank

Negotiable Instruments

Negotiable instruments are instruments used for making payments either for personal reasons as in a suriness transaction and these are fully transferable from one person to another.

Here we have some negotiable instruments and their meaning briefly explained

Letter of Credit

A **letter of credit** is a document issued by a financial institution or a similar party, assuring payment to a seller of goods and/or services provided certain documents have been presented to the bank. These are documents that prove that the seller has performed the duties under an underlying contract (*e.g.,* sale of goods contract) and the goods (or services) have been supplied as agreed.

Bills of Exchange

A. bill of exchange or 'Draft' is a written, unconditional order by the arowers to the drawer to pay money to or the order of the payee.

The drawer is writer the instrument the drawee -on whom order for making the payment is made and payer someone who is the bonafide receiver of the payment.

Promissory Note

It is a writen, un conditional undertaking duly signed by the drawer (the maker) to pay a specified sum, to the payee or to the order of a certain specified person.

Tit-Bits

- **Bank of India** First Indian Bank to open a branch outside India.
- **CTS-2010** (Cheque Truncation System) cheque is a new type of cheque introduced by Reserve Bank of India. Standard Chartered Bank is becoming the largest Foreign Bank in India for its operations in banking and financial services. It is also listed on the National Stock Exchange of India. Number of branches in India is 96.
- **Piggy Bank** (sometimes **Penny Bank** or **Money Box**) is the traditional name of a coin container; usually used by children.
- A **Community Bank** is a depository institution that is typically locally owned and operated. Community banks tend to focus on the needs of the businesses and families where the bank holds branches and offices.

Cheque

It is a bill of exchange dramon on a specified samker and expressed to se payable on demand.

Dromer Person who has an account in the bank and who drames a cheque for making payment.

Srowee A drance is person on whom the cheque is drawen. *e.g.*, cheque is issued of ABC bank, than 7 ABC bank is the dromee.

Payee A payee is the person to whom the amount stated in the cheque is payable.

Important Points for Cheque Payment

- Do not use post dated cheques as they may cause problems if paid in before the date shown by being returned unpaid or being clerared before you are expecting it.
- Draw a line through unused space on the cheque to avoid unauthorised people adding extra details.
- Record details of cheques issued on chequebook counterfoils and carefully check against bank statements so discrepancies can be picked up and reported to your bank or building society.
- Don't accept a cheque or banker's draft from someone unless you absolutely know and trust them.
- Remember that, even after the value of the cheque has been credited to your account there is still a risk that the money could be reclaimed if the cheque turns out to be stolen or counterfeit.
- Be aware that banker's drafts and building society cheques are not necessarily safe forms of payment, as the money may not be paid if they are found to be stolen.

Reason Behind Return of Cheque

- Funds insufficient (no funds in the debit bank account, for the cheque amount).
- Exceeds arrangement (normally applicable to Overdraft accounts, the cheque amount exceeds the Overdraft limit for the debit account).
- Drawer's signature incomplete.
- Drawer's signature illegible.
- Drawer's signature differs.
- Payment stopped by drawer.
- Instrument contains extraneous matter.
- Image not clear; present again with paper.
- Account closed.
- No such account (this happens, when the account number is printed and the account number written by hand illegible).
- Amount in protective crossing incorrect.
- Amount in protective crossing required/ illegible.
- Bank/Branch blocked.

Types of Cheques

- **Order Cheque** A cheque payable to particular person or his order is called an order cheque.
- **Bearer Cheque** A cheque which is payable to a person whosoever bears, is called bearer cheque.
- **Blank Cheque** A cheque on which the drawer puts his signature and leaves all other columns blank, is called a blank cheque.
- **Stale Cheque** The cheque which is more than 6 months old is a stale cheque.
- **Multilated Cheque** If a cheque is torn into two or more pieces, it is termed as multilated cheque.
- **Post-Dated Cheque** If a cheque bears a date later than the date of issue, it is termed as post-dated cheque.
- **Open Cheque** A cheque which has not been crossed, is called an open cheque. Even if a cheque is crossed and subsequently the drawer has cancelled the crossing at the request of the payee and affixes his full signature with the words 'crossing cancelled pay cash', it becomes an open cheque.
- **Crossed Cheque** A cheque which carries too parallel transverse lines across the face of the cheque with or without the words 'and co', is said to be crossed.
- **Gift Cheques** Gift cheques are used for offering presentations on occasions like birthday, weddings and such other situations. It is available in various denominations.
- **Traveller's Cheques** It is an instrument issued by a bank for remittance of money from one place to another.

MICR Cheques/Drafts

What a view to speeding up the cheque clearing process, both local as well as inter-city cheques, the Reserve Bank of India (RBI) has introduced mechanised cheque processing system using MICR (Magnetic Ink Character Recognition) technology initially in the four metropolitan cities of Bombay, Calcutta, Madras and New Delhi. Under this system, the cheques are processed at high speed on MICR machines.

Banks issues cheques, drafts and other payment instruments in MICR format using the special quality paper and printing securitisations. On MICR instruments, there is code line at the bottom containing information printed in magnetic ink, which is required for mechanical processing.

Bank Draft

It is a bill of exchange in which a bank orders its branch or another bank specified therein, as the case may be, to repay a specified sum of money to a specified person or to his order. Usually, banks charge a standard rate of service/issue charges on these drafts.

Difference between a Cheque and a Demand Draft

A cheque is issued by an individual, whereas a demand draft is issued by a bank. A cheque is drawn by bank an account holder of a bank whereas a draft is drawn by one branch of a bank on another branch of the same bank. A cheque can be made payable either to a bearer or order. But a demand draft is always payable to order of certain person.

Endorsement

It literally means "writing on the back of the instrument." But under Negotiable Instruments Act, it means "writing of a person's name on the back of the instrument or on any paper attached to it for the purpose of negotiation." The person who signs the instrument for the purpose of negotiation is called the 'endorser.'

Meaning of Crossing

Crossing of cheques means drawing two parallel transverse lines on the left hand top corner of a cheque. Sometimes, it is also done in the centre of the cheque.

The Negotiable Instruments Act, 1881, recognises crossing of cheque. A crossing is a direction to the paying banker that the cheques should be paid only to a banker and if the banker is named in the crossing, only to that banker. The holder of he cheque allowed to cash it across the counter.

Types of Crossing

Cheques can be crossed in two ways

1. General Crossing
2. Special Crossing General Crossing: Section 123 of the Negotiable Instruments Act 1881, defines as

"Where a cheque bears a cross its face an addition of the words and company or any abbreviation thereof, between two parallel transverse lines or of two parallel transverse lines simply either with or without the words 'not negotiable the addition shall he deemed a crossing and the cheque shall be deemed to be crossed generally."

The effect of general crossing is that the cheque must be presented to the paying banker through any other banker and not by the payee himself at the countes. The collecting banker credits the proceeds to the account of the payee or the holder of the cheque. The latter may thereafter withdraw the money.

Question Bank

1. Consider the following statements
   1. In Indian Commercial Banking System, the number of the Non-Scheduled Bank is more than the Scheduled Banks.
   2. The Non-Scheduled Banks in Indian Commercial Banking System are even less than a dozen in number.

   Which of the statements given above is/are correct?

   (1) Only 1 (2) Only 2
   (3) Both 1 and 2 (4) Neither 1 nor 2
   (5) Can't say

2. Which one of the following banks can be included in the Scheduled Commercial Banking System of India?
   (1) Regional Rural Banks
   (2) Private Sector Banks
   (3) Foreign Banks in India
   (4) All of the above
   (5) None of the above

3. Match the following

List I	List II
A. Allahabad Bank	1. Delhi
B. Central Bank of India	2. Kolkata
C. Indian Overseas Bank	3. Mumbai
D. Punjab National Bank	4. Chennai

Codes

	A	B	C	D
(1)	2	4	3	1
(2)	2	3	4	1
(3)	4	3	2	1
(4)	4	1	3	2
(5)	1	2	3	4

4. Which of the following Public Sector Bank's emblem figures a dog and the words 'faithful friendly' in it?
   (1) Punjab National Bank
   (2) Syndicate Bank
   (3) Oriental Bank of India
   (4) State Bank of India
   (5) Central Bank of India

5. Consider the following statements
   1. Scheduled Commercial Banks are those which have been included in the First Scheduled of RBI Act, 1934.
   2. Non-Scheduled Commercial Banks are those which have been included in the Second Scheduled of RBI Act, 1934.

   Which of the statements given above is/are correct?

   (1) Only 1 (2) Only 2
   (3) Both 1 and 2 (4) Neither 1 nor 2
   (5) Can't say

6. In India, the first bank of limited liabilities managed by Indians and founded in 1881 was
   (1) Hindustan Commercial Bank
   (2) Oudh Commercial Bank
   (3) Punjab National Bank
   (4) Punjab and Sind Bank
   (5) National Bank

7. How many banks were first nationalised?
   (1) 10 (2) 12 (3) 14 (4) 16
   (5) 24

8. When was the second phase of nationalisation done?
   (1) 9th July, 1969
   (2) 10th July, 1968
   (3) 16th August, 1985
   (4) 15th April, 1980
   (5) None of the above

9. How many banks were in second phase of nationalisation?
   (1) 4 (2) 5 (3) 6 (4) 7
   (5) 9

10. Who will act as the banker to the Government of India?
    (1) State Bank of India
    (2) Reserve Bank of India
    (3) NABARD
    (4) Nationalised Banks
    (5) Central Bank of India

11. Where is the headquarter of Reserve Bank of India?

(1) Mumbai *(2)* Delhi
(3) Kolkata *(4)* Ahmedabad
(5) Noida

12. Match the following

List I	List II
A. Allahabad Bank	1. 1894
B. Oriental Bank of Commerce	2. 1943
C. Punjab National Bank	3. 1943
D. UCO Bank	4. 1865

Codes

	A	B	C	D
(1)	2	4	3	1
(2)	2	3	4	1
(3)	4	3	2	1
(4)	4	1	3	2
(5)	3	1	4	2

13. A scheduled bank is the one which is included in the

(1) II Schedule of Banking Regulation Act
(2) II Schedule of Constitution
(3) II Schedule of RBI Act
(4) None of the above

14. What is the animal of the insignia of the RBI?

(1) Lion *(2)* Tiger *(3)* Panther
(4) Elephant *(5)* Horse

15. Which of the following Indian Banks is not a Nationalised Bank?

(1) Corporation Bank *(2)* Dena Bank
(3) Federal Bank *(4)* Vijaya Bank
(5) Oriental Bank of Commerce

16. Consider the following statements

1. Allahabad Bank was the first bank to be established exclusively by Indians.
2. Seven banks forming subsidiary of State Bank of India was nationalised in 1960.

Which of the statements given above is/are correct?

(1) Only 1 *(2)* Only 2
(3) Both 1 and 2 *(4)* Neither 1 nor 2
(5) Can't say

17. Who regulates the money circulation in India?

(1) State Bank of India
(2) Reserve Bank of India
(3) NABARD
(4) Commercial Banks
(5) SBI

18. Which of the following is not an organised sector in India?

(1) Nationalised Banks
(2) Regional Rural Banks
(3) Cooperative Banks
(4) Chits and Money Lenders
(5) Industrial Bank

19. Who will settle the grievances of customers of banks?

(1) Reserve Bank of India
(2) State Bank of India
(3) Local Courts
(4) Ombuds Men
(5) Governor of RBI

20. Who introduced the Banking Ombudsmen Scheme?

(1) ARBI *(2)* SBI
(3) Ministry of Finance *(4)* NABARD
(5) None of these

21. When was Ombuds Men Scheme first introduced?

(1) November 2006 *(2)* October 1981
(3) June 1995 *(4)* January 1998
(5) All of these

22. Which was the firth Bank corporated by the Indians? (1881)

(1) Imperial Bank of India
(2) State Bank of India
(3) Avadh Commercial Bank
(4) Reserve Bank of India
(5) National Bank

23. When was the Avadh Commercial Bank established?

(1) 1881 *(2)* 1894 *(3)* 1898 *(4)* 1899
(5) 1864

24. When was Reserve Bank of India established?

(1) 1920 *(2)* 1925 *(3)* 1935 *(4)* 1948
(5) 1968

25. When was Reserve Bank of India Nationalised?

(1) 1947 *(2)* 1948
(3) 1949 *(4)* 1950
(5) 1960

26. When was Indian Banking Act come into force?

(1) 1948 *(2)* 1949 *(3)* 1950 *(4)* 1951
(5) 1940

27. Imperial Banks were amalgamated and changed as...... .

(1) Reserve Bank of India
(2) State Bank of India
(3) Subsidiary Banks
(4) Union Bank of India
(5) Corporation Bank

28. When was Imperial Bank was changed as State Bank of India?

(1) 1st January, 1935
(2) 26th February, 1947
(3) 1st July, 1955
(4) 1st July, 1959
(5) 26th February, 1955

29. In the second nationalisation of commercial banks,......... were nationalised.

(1) 4 (2) 5 (3) 6 (4) 8
(5) 9

30. The first wholly Indian Bank was set-up in

(1) 1794 (2) 1894 (3) 1896 (4) 1902
(5) 1918

31. Traveller's cheques are valid for ......

(1) Three months
(2) Six months
(3) One year
(4) No limit are valid till encashed
(5) None of the above

32. When was SBI established?

(1) 1st April, 1935 (2) 31st July, 1969
(3) 5th May, 1955 (4) 1st July, 1955
(5) 5th May, 1960

33. Presently, the number of the public sector banks in India is

(1) 8 (2) 20 (3) 28 (4) 14
(5) None of these

34. Which of the following is popular 'saving bank' among the poor children?

(1) Core banking (2) Credit banking
(3) Debit banking (4) Merchant banking
(5) Piggy banking

35. The origin of the State Bank of India goes back to the first decade of the 19th century with the establishment of

(1) Bank of Calcutta (2) Bank of Bengal
(3) Bank of Bombay (4) Bank of Madras
(5) None of these

36. Which bank came into existence in 1921 when three banks namely, Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) were reorganised and amalgamated to form a single banking entity?

(1) Imperial Bank of India
(2) State Bank of India
(3) Reserve Bank of India
(4) Punjab National Bank
(5) None of the above

37. The State Bank of India was constituted on

(1) 1st April, 1935 (2) 1st January, 1949
(3) 1st July, 1955 (4) 1st September, 1956
(5) None of these

38. The government passed the State Bank of India (Subsidiary Banks) Act in

(1) 1934 (2) 1949
(3) 1955 (4) 1959
(5) None of these

39. Which bank became the State Bank of India in 1955?

(1) General Bank of India
(2) Bank of Hindustan
(3) Imperial Bank of India
(4) Federal Bank of India
(5) None of the above

40. SBI day is observed on?

(1) 1st January (2) 1st April
(3) 1st July (4) 1st August
(5) None of these

41. SBI Act was passed in Parliament in

(1) 1935 (2) 1949
(3) 1955 (4) 1969
(5) 1980

42. Generally, the minimum rate below which the banks do not lend is known as

(1) floor rate
(2) repo rate
(3) highest rate
(4) base rate
(5) All of the above

43. Which of the following banks has acquired the 'Centurion Bank of Punjab'?

(1) ICICI Bank (2) IDBI Bank
(3) HDFC Bank (4) AXIS Bank
(5) None of these

44. What was the deposits criteria of 14 banks nationalised on 19th July, 1969?
(1) ₹ 1000 crore (2) ₹ 500 crore
(3) ₹ 100 crore (4) ₹ 50 crore
(5) None of these

45. Board for Financial Supervision (BFS) constituted in 1994 by RBI to undertake consolidated supervision of
(1) commercial banks
(2) financial institutions
(3) non-banking finance companies
(4) None of the above
(5) All of the above

46. Who is a very senior citizen?
(1) A person who is 65 years and above
(2) A person who is 75 years and above
(3) A person who is 80 years and above
(4) A person who is 90 years and above
(5) A person who completed 100 years of age

47. SEBI, a regulator of securities market in India was established in the year 1988, but was empowered with statutory Powers in the form of Act in the year
(1) 1990 (2) 1991
(3) 1992 (4)1993
(5) None of these

48. Name the premier institution that is taking care of the financial needs of importers and exporters of our country which was established in the year 1981.
(1) EXPO Bank
(2) Export Import Bank (EXIM)
(3) Merchant Bank
(4) ECGC
(5) None of the above

49. SMERA is an SME Rating Agency in India meant for
(1) rating on credit worthiness of MSME
(2) rating on quality management
(3) rating on training system
(4) rating on technology usage in (the organisation
(5) None of the above

50. FIPB stands for
(1) Foreign Investment Permanent Board
(2) Foreign Industrial Promotion Board
(3) Foreign Investment Promotion Board
(4) Financial Investment Promotion Board
(5) None of the above

51. CGTMSE stands for
(1) Central Government Fund Trust for Medium and Small Enterprises
(2) Credit Guarantee Fund for Medium Size Enterprises
(3) Central Government Transfer Fund for Multispecialty Micro Enterprises
(4) Credit Guarantee Fund Trust for Micro and Small Enterprises
(5) None of the above

52. The first nationalisation of banks exercise was done on
(1) 19th June, 1969
(2) 19th June, 1970
(3) 19th June, 1967
(4) 15th July, 1967
(5) None of the above

53. How many banks were nationalised In the second phase in 1980?
(1) 5 (2) 6 (3) 7 (4) 4
(5) 1

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1. (2)	2. (4)	3. (2)	4. (2)	5. (2)	6. (2)	7. (3)	8. (4)	9. (3)	10. (2)
11. (1)	12. (3)	13. (3)	14. (2)	15. (3)	16. (3)	17. (2)	18. (4)	19. (4)	20. (1)
21. (3)	22. (3)	23. (1)	24. (3)	25. (3)	26. (2)	27. (2)	28. (3)	29. (3)	30. (3)
31. (4)	32. (4)	33. (3)	34. (5)	35. (1)	36. (1)	37. (3)	38. (4)	39. (3)	40. (3)
41. (3)	42. (4)	43. (3)	54. (4)	45. (5)	46. (1)	47. (3)	48. (2)	49. (1)	50. (3)
51. (4)	52. (1)	53. (2)							

Chapter

4

Financial Reforms *and* Banking Innovation

Financial Reforms

India has had more than decade of financial sector reforms during, which there has been substantial transformation and liberalisation of the whole financial system.

Objectives of Financial Sector Reform

The main objectives of the financial sector reform process in India initiated in the early 1990s, are as follows

- Remove financial repression that existed earlier.
- Create an efficient, productive and profitable financial sector industry.
- Enable price discovery, particularly, by the market determination of interest rates that then helps in efficient allocation of resources. Provide operational and function autonomy to institutions.
- Prepare the financial system for increasing international competition.
- Open the external sector in a calibrated fashion. Promote the maintenance of financial stability even in the face of domestic and external environment.

Important Acts related to Banking Regulation

These are as follows

Banking Regulation Act, 1949

The Banking Regulation Act, 1949 came into force on 16th March 1949. It contained various aspects related to Banking Companies in India.

Its purpose is to

- provide safety in the interest of depositors
- prevent misuse of powers by managers of banks
- act does not supersede, but supplement to **Companies Act, 1956**
- initially named Banking Companies Act, 1949, but from1st March, 1966 the name of the act was changed to Banking Regulation Act, 1949.

State Bank of India Act, 1955

Pursuant to the provisions of the State Bank of India Act of 1955, the Reserve Bank of India, which is India's Central Bank, acquired a controlling interest in the Imperial Bank of India.

The State Bank of India (Subsidiary Banks) Act, 1959

An Act to provide for the formation of Certain Government or Government Associated Banks as subsidiary of the State Bank of India and for the Constitution, management and control of the Subsidiary Banks, so formed and for matters connected there with or incidental there to.

Banking Laws (Miscellaneous Provisions) Act, 1963

With a view to restraining the control exercised by particular group of person over the affairs of banks and to providing for stricter Control Over Bank by the Reserve Bank, the banking laws (miscellaneous provisions) Act was passed in 1963.

The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970

No shareholder of the Corresponding New Bank, other than the Central Government shall be entitled to exercise voting rights in respect of any shares held by him in excess of 10% (amended vide Banking amendment bill 2012) of the total voting rights of all the shareholders of the Corresponding New Bank.

Regional Rural Banks Act, 1976

Regional Rural Banks were established under the provisions of an Ordinance passed on 26th September, 1975 and the RRB Act. 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. These were set-up on the recommendations of the narasimham working group.

Sarfaesi Act, 2002

The full form of Sarfaesi Act as we know is Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Banks utilise this act as an effective tool for bad loans (NPA) recovery. It is possible where non-performing assets are backed by securities charged to the bank by way of hypothecation or mortgage or assignment.

Upon loan default, banks can seize the securities (except agricultural land) without intervention of the court. Sarfaesi is effective only for secured loans where bank can enforce the underlying security *e.g.,* hypothecation, pledge and mortgages. In such cases, court intervention is not necessary, unless the security is invalid or fraudulent. However, if the asset in question is an unsecured asset, the bank would have to move the court to file civil case against the defaulters.

The Sarfaesi Act, 2002 gives powers of 'seize and desist' to banks. Banks can give a notice in writing to the defaulting borrower requiring it to discharge its liabilities within 60 days. If the borrower fails to comply with the notice, the bank may take recourse to one or more of the following measures take possession of the security for the loan, sale or lease or assign the right over the security and manage the same or appoint any person to manage the same.

RBI Amendment Act, 2006

In 2006, Government amended the RBI Act, 1974 and the Banking Regulation Act. Under the act, Government removed the floor and CAR on CRR and floor on statutory liquidity ratio to provide flexibility to the RBI to manage liquidity. After this, RBI was not required to pay any interest on the CRR deposits of banks. The amendments also established RBI as regulator of the bond market and the currency market.

The Banking Laws (Amendment) Bill, 2011

This Bill would strengthen the regulatory powers of Reserve Bank of India (RBI) and to further develop the banking sector in India. It will also enable the nationalised banks to raise capital by issue of preference shares or rights issue or issue of bonus shares.

The salient features of the bill are as follows

1. To enable banking companies to issue preference shares subject to regulatory guidelines by the RBI;
2. To increase the cap on restrictions on voting rights;

3. To create a Depositor Education and Awareness Fund by utilising the in operative deposit accounts;
4. To empower RBI to supersede the Board of Directors of banking company and appointment of administrator till alternate arrangements are made;
5. To provide for special audit of co-operative banks at instance of RBI.
6. To enable the nationalised banks to raise capital through 'bonus' and 'rights' issue and also enable them to increase or decrease the authorised capital with approval from the Government and RBI without being limited by the ceiling of a maximum of ₹ 3000 crore.
7. Voting rights in banks may be restricted up to 26%.

Committees related to Banking Sector Reform

Various committees related to Banking Sector Reform are as follows

Narsimham Committee I (1991)

This committee was set-up in order to study the problems of the Indian financial system and to suggest recommendations for improvement in the efficiency and productivity of *financial institutions under following areas.*

Reduction in the SLR and CRR The committee recommended the reduction of higher proportion of the Statuary Liquidity Ratio (SLR) and the Cash Reserve Ratio (CRR). The committee recommended their gradual reduction of SLR to 25% and CRR to 3.5%.

Phasing Out of Directed Credit Programme In India, since nationalisation, directed credit programmes were adopted by the government. It was reducing the profitability of banks and thus, the committee recommended the stopping of this programme.

Interest Rate Determination The committee felt that the interest rates in India were regulated and controlled by the authorities. The determination of the interest rate should be on the grounds of market forces such as the demand for and the supply of funds.

Structural Reorganisations of the Banking Sector The committee recommended that the actual number of public sector banks need to be reduced. Local banks should concentrate on region specific banking.

Regarding the Regional Rural Banks (RRBs), it recommended that they should focus on agriculture and rural financing. It recommended that the government should assure that hence forth there won't be any nationalisation and private and foreign banks should be allowed liberal entry in India.

Establishment of the ARF Tribunal The committee recommended the establishment of an Asset Reconstruction Fund (ARF). This fund would take over the proportion of the bad and doubtful debts from the banks and financial institutes. It would help banks to get rid of bad debts.

Removal of Dual Control The committee recommended the stopping of dual control system of the RBI. It considered and recommended that the RBI should be the only main agency to regulate banking in India.

Banking Autonomy The committee recommended that the public sector banks should be free and autonomous. In order to pursue competitiveness and efficiency, banks must enjoy autonomy, so that they can reform the work culture and banking technology up gradation would thus be easy.

Some of these recommendations were later accepted by the Government of India and became banking reforms.

Narsimham Committee II (1998)

It submitted its report to the government in April, 1998 with the following recommendations

Strengthening the Banks in India The committee considered the stronger banking system in the context of the Current Account Convertibility (CAC). It thought that Indian banks must be capable of handling problems regarding domestic liquidity, an exchange rate management in the light of CAC.

Narrow Banking Those days, many public sector banks were facing a problem of the Non-Performing Assets (NPAs). Some of them had NPAs that were as high as 20% of their assets. Thus, for successful rehabilitation of these banks, it recommended 'Narrow Banking concept' where weak banks would be allowed to place their funds only in short-term and risk free assets.

Capital Adequacy Ratio In order to improve the inherent strength of the Indian banking system, the committee recommended that the government should raise the prescribed capital adequacy norms. This will further improve their absorption capacity also. Currently, the capital adequacy ratio for Indian banks is at 9%.

Bank Ownership As it had earlier wanted freedom for banks in its working and bank autonomy, it felt that the government control over the banks in the form of management and ownership and bank autonomy does not go hand-in-hand, it thus recommended a review of functions of boards and enabled them to adopt professional corporate strategy.

Review of Banking Laws The committee considered that there was an urgent need for reviewing and amending main laws governing Indian banking industry like RBI Act, Banking Regulation Act, State Bank of India Act, Bank Nationalisation Act etc. This upgradation will bring them in line with the present needs of the banking sector in India.

Various Committees of Banking Reform

Year	Chairman	Area Covered
2001	YV Reddy	Small Savings Reforms
2001	SS Kohli	Rehabilitation of Sick SSI Units
2001	SS Kohli	Willful Defaulters
2001	PR Khanna	Clarifications To NPAS
2002	LN Mitra	Frauds
2003	MVS Chalpati Rao	Restructuring of RRBS
2004	AS Ganguly	Corporate Governance
2004	Vijay Khelkar	Tax Stucture Rationalisation
2004	Rakesh Mohan	Small Savings Tax and Interest Rates
2005	VS Vyas	Credit Flow to Agriculture and Relative Activities
2007	SC Gupta	Money Lending and Enforcement Machinery
2007	SS Johnl	Assisting Distressed Farmer
2008	Dr C Rangarajan	Financial Inclusion
2010	Deepak Mohanty	Base Rate
2010	AK Khandelwal	HR Issues of Public Sector Banks
2011	YH Malegam	Issues on Microfinance Institutions
2011	M Damodaran	Customer Service in Banks
2012	MV Nair	Priority Sector Lending Revised
2012	B Mahapatra	Restructuring of Advances
2012	KC Chakrabarty	Rehabilitation of Sick Industries

Damodaran Committee, 2011

The committee, headed by former SEBI Chairman **M Damodaran,** was set-up the Central Bank to look into the issues of customer services and evaluate the existing system of grievance redressal mechanism prevalent in banks, its structure and efficacy and recommend measures for expeditious resolution of complaints.

Recommendations of the Committees

Bank should offer no-frill savings accounts with certain basic facilities such as cheque book and ATM card without prescribing any minimum balance. All fixed deposit receipts should prominently indicate the annualised interest rate to help customers take more informed decisions. The Indian Banks Association should standardise the account opening form for all banks, similar to the one used for loans. Title deeds of property should be returned to customers within 15 days of the full settlement of home loans.

Innovative Banking

Following are the details of these activities

Know Your Customer (KYC) Norms

- The Reserve Bank of India advised banks to make the Know Your Customer (KYC) procedures mandatory while opening and operating the accounts. At the time of opening an account, bank has to ensure that the prospective customer is the person who he/she claims to be. This is to prevent fraudsters using the name, address and forged signature of others for doing fraudulent transactions, benami transactions, encasement of stolen cheques, drafts, dividend, warrants etc.
- Banking operations are susceptible to the risks of money laundering and terrorist financing. In order to arrest money laundering, where banks are mostly used in the process, it is imperative that they know their customers well.
- RBI has issued the KYC guidelines under Section 35 (A) of the Banking Regulation Act, 1949 and contravention of the same will attract penalties under the relevant provisions of the Act. Thus, banks has to be fully compliant with the provisions of the KYC procedures.

Relaxed KYC Procedure

- The relaxation in KYC procedures is applicable for low income group customers. Individuals falling under the 'No Frill Accounts'.
- Low income group customers are those who keep balances not exceeding ₹ 50000 in all their accounts (FDR/CA/SB) taken together and total credit summation in all the accounts taken together is not exceed ₹ 1 lakh in a year.

Mutual Bank

It is a financial institution chartered by a central or regional government, without capital stock, that is owned by its members who subscribe to a common fund. From this fund claims, loans etc are paid. Profits after deductions are shared between the members. The institution is intended to provide a safe place for individual members to save and to invest those savings in mortgages, loans, stocks, bonds and other securities and to share in any profits or losses that result. The members own the business.

Factoring

It is a financial transaction in which a business sells its accounts receivable (*i.e.,* invoices) to a third party (called a factor) at a discount. Factoring is a process of fulfilling the credit requirement by lending of material or asset to another person. This process is very popular in manufacturing industries.

Venture Capital (VC)

It is financial capital provided to early-stage, high-potential, high risk, growth start-up companies. The venture capital fund earns money by owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries, such as biotechnology, IT and software.

Microfinance

It is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services.

The two main mechanisms for the delivery of financial services to such clients are as follows

1. Relationship-based banking for individual entrepreneurs and small businesses.
2. Group-based models, where several entrepreneurs come together to apply for loans and other services as a group.

Anywhere Banking

It is a highly secure and convenient system for online, real-time inter branch transactions across the bank. Anywhere banking offers you greater flexibility, transaction power, convenience and ease in banking.

Leasing-Leasing is an accepted and well-established form of equipment financing enabling many businesses to access equipment and technology, which may not have been available through more traditional forms of finance.

Islamic Banking

A banking system that is based on the principles of Islamic law (also known Shariah) and guided by Islamic economics. Two basic principles behind Islamic banking are the sharing of profit and loss and significantly, the prohibition of the collection and payment of interest. Collecting interest is not permitted under Islamic law.

The Islamic banking system uses methods of profit/loss sharing to facilitate financial transactions: for some types of loans, the borrower only needs to pay back the amount owed to the lender, but the borrower can choose to pay the lender a small amount of money to serve as a gratuity.

Since this system of banking is grounded in Islamic principles, all the undertakings of the banks follow Islamic morals. Therefore, it could be said that financial transactions within Islamic banking are a culturally distinct form of ethical in vesting e.g., investments involving alcohol, gambling, pork etc are prohibited). The Dubai Islamic Bank has the distinction of being the world's first full-fledged Islamic bank formed in 1975.

Electronic Banking

Electronic banking, also known as Electronic Funds Transfer (EFT), is simply the use of electronic means to transfer funds directly from one account to another, rather than by check or cash.

Direct Deposit and Withdrawal Services It allow consumers to authorise specific deposits, such as paychecks or social security checks, to their accounts on a regular basis.

Payment by Phone Systems Let consumers phone their financial institutions with instructions to pay certain bills or to transfer funds between accounts.

Point-of-Sale Transfer Terminals It allow consumers to pay for retail purchase with a check card, a new name for debit card. This card looks like a credit card, but with a significant difference– the money for the purchase is transferred immediately from your account to the store's account.

Personal Computer Banking Services It offer consumers the convenience of conducting many banking transactions electronically using a personal computer.

Internet Banking It such system allows setting various access levels for specific user groups and controlling the authorisation levels and transaction limits, as assigned to various employees of your company.

Home Banking The practice of conducting banking transactions from home rather than at branch locations. Home banking generally refers to either banking over the telephone or on the internet.

Smart Cards It sometimes called stored-value cards, have a specific amount of credit embedded electronically in the card.

Direct Deposit System It also known as direct credit, is a banking term that describes a deposit of money straight from the source into a bank account, by electronic funds transfer or other means where the payment is initiated by the payer not the payee. The money is transferred directly to the recipient bank through a payment system.

Mobile Banking It is a system that allows customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or personal digital assistant.

The Indian Financial Network [INFINET] It is the communication backbone for the Indian Banking and Financial Sector. All banks in the public sector, private sector, co-operative etc and the premier financial institutions in the country are eligible to become members of the INFINET.

Trends in Banking

These are as follows

E-Banking/Online Banking/Internet Banking

E-banking refers to electronic banking. It is like e-business in banking industry. E-banking is also called as 'Virtual Banking' or 'Online Banking' E-banking is result of the growing expectations of bank's customers E-banking, involves information technology based banking.

Popular Services Covered Under E-Banking

- Automated Teller Machine
- Credit Card
- Debit Card
- Smart Card
- Electronic Funds Transfer (EFT) System
- Cheque Truncation System
- Mobile Banking
- Internet Banking
- Telephone Banking

Virtual Banking

It is a bank with a very small or non-existent branch network.

It offers its financial services by

(i) Telephone banking
(ii) Online banking
(iii) Automated teller machines
(iv) Mail banking
(v) Mobile banking

By eliminating the costs associated with retail banking particularly bank branches, virtual banks may offer higher interest rates and lower service charges on their saving accounts than their competitors.

Automated Teller Machine (ATM)

It is designed to perform the most important function of bank. It is operated by plastic card with its special features. The plastic card has replaced cheque, personal attendance of the customer, banking hours restrictions and paper based verification. These are debit cards. ATMs are used as spring board for Electronic Fund Transfer.

ATM itself can provide information about customers account and also receive instructions from customers ATM cardholders. An ATM is an Electronic Fund Transfer terminal capable of handling cash deposits, transfer between accounts, balance enquiries cash withdrawals and pay bills.

White Label ATM Non-banking entities have entered the business of owning ATMs where customers of different banks can withdraw or deposit cash from their respective bank accounts. This model of ATM network where banks are not the owners is known as White Label ATMs. This reduces the cost of banks substantially as they do not incur any capital cost and hence, this model is becoming popular.

Credit Card/Debit Card

The credit cardholder is empowered to spend wherever and whenever he wants with his Credit Card within the limits fixed by his bank. Credit Card is a Post Paid Card. Debit Card, on the other hand, may be considered as a prepaid card) with usage facility limited to the balance in the linked deposit, account of the card holder. An individual has to open an account with the issuing bank, which gives Debit Card with a Personal Identification Number (PIN).

Smart Card

Banks are adding chips to their current magnetic stripe cards in order to enhance security and offer new services, that are called Smart Cards. Smart Cards allow/thousands of times of information storable on magnetic stripe cards.

Plastic Money

With the increasing use of credit, debit cards for withdrawal of cash from ATMs. The use of the term plastic money is common. These cards being of plastic facilitating availability of cash or money to the card holder have come to be referred commonly as plastic money.

Other New Trends in Banking

These are as follows

Mobile Banking Transactions

Some banks have started offereing mobile banking and tele-banking to customers.

The operative guidelines for banks on Mobile Banking Transactions in India were issued on 8th October. 2008. Only banks who have received one-time approval from the RBI are permitted to provide this facility to customers.

Point of Sale (POS) Terminals

To use Smart Cards/Debit Cards/Credit Cards for the purchase of an item or for payment of a service at a merchant's store, the card has to be swiped in a terminal known as Point of Sale or POS terminal kept at the merchant's store.

A Point Of Sale (POS) terminal is an integrated PC based device, with a monitor (CRT), POS keyboard, POS printer. Customer Display, Magnetic Swipe Reader and an electronic cash drawer all rolled into one. More generally, the POS terminal refers to the hardware and software used for checkouts.

Outsourcing of Non-Core Activities

Outsourcing can enable banks to stay ahead of competition. The key driving force behind outsourcing activities by any firm, irrespective of the nature of its business, is cost saving. Initially, Foreign Banks were involved in outsourcing their activities in order to leverage India's significant cost advantages.

Outsourcing Activities of Indian Banks

During the recent years, Indian banks also have started outsourcing their non-core activities. The two main reasons for Indian banks outsourcing non-core activities are similar to the Overseas Banks, *i.e.*, cost consideration and lack of expertise in certain areas.

Banking Ombudsman Scheme

The Banking Ombudsman Scheme, 1995 was notified by RBI on 14th June, 1995, in terms of powers conferred on the Bank by Section 35A of the Banking Regulation Act, 1949 (10 of 1949) to provide for a system of redressal of grievances against banks.

Board of Financial Supervision

It was constituted in November 1994, as a committee of the Central Board of Directors of the Reserve Bank of India with an objective to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies.

Central Board of Banking Fraudulence

It was established by Finance Minister in year 1997. It was established to inquiry about the CBI cases pertaining to the officers of rank of chief managers.

Debts Recovery Tribunal

The Debts Recovery Tribunal have been constituted under Section 3 of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993. The original aim of the Debts Recovery Tribunal was to receive claim applications from Banks and Financial Institutions against their defaulting borrowers. *The Debts Recovery Tribunal of India have become model institutions for many a country to follow*

Tribunal Headquarter	Establishment	Jurisdiction of Tribunals
Debt Recovery Appellate Tribunal, Mumbai	12th July, 1994	All Debt recovery tribunals of India
Debt Recovery Tribunals		
Kolkata	27th April., 1994	West Bengal, Andaman and Nicobar islands
Delhi	5th July, 1994	Delhi
Jaipur	30th August, 1994	Rajasthan, Himachal Pradesh, Punjab, Haryana and Chandigarh
Ahmedabad	21st October, 1994	Gujarat, Dadar and Nagar Haweli, Daman and Diu
Bengaluru	30th November, 1994	Karnataka and Andhra Pradesh
Chennai	4th November, 1995	Tamil Nadu, Kerala, Puducherry
Guwahati	7th January, 1997	Assam and entire North-Eastern states
Patna	24th January, 1997	Bihar, Orissa
Jabalpur	7th April, 1998	Madhya Pradesh and Uttar Pradesh

Services of Banks

These are as follows

National Electronic Funds Transfer (NEFT)

- It is a nation wide system that facilitates individuals, firms and corporates to electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country.

- Even such individuals, firms or corporates who do not have a Bank account can also deposit cash at the NEFT. Enabled branch with instructions to transfer funds using NEFT.
- There is not limit-either minimum or maximum on the amount of funds that could be transferred using NEFT.

Electronic Clearing Service (ECS)

- The Reserve Bank of India has introduced Electronic Clearing Service (ECS).
- This uses a series of electronic payment instructions for transfer of funds instead of paper instruments.
- The 'ECS-Credit' enables companies to pay interest or dividend to large number of beneficiaries by direct credit of the amount to their Bank accounts.
- 'ECS-Debit' facilitates payment of charges to utility services, such as electricity, telephone companies, payment of insurance premium and loan instalments, directly to the customer's account with a bank.

Electronic Fund Transfer (EFT)

- It is a scheme introduced by RBI to help banks offering their customers money transfer service from account to account of any bank branch to any other bank branch in places where EFT services are offered.
- The EFT system presently covers all the branches of 27 Public Sector Banks and 55 Scheduled Commercial Banks.
- Funds transfer is possible from any branch of these banks to other branch of any bank both inter-city and intra-city.

RTGS System

(Real Time and on Gross Basis)

- RTGS system is a funds transfer mechanism for transfer of money from one bank to another on a 'real time' and on 'gross basis'.
- This is the fastest possible money transfer system through the banking channel.
- Settlement in 'real time' means payment transaction is not subject to any waiting period. The transactions are settled as soon as they processed. 'Gross settlement' means the transaction is settled on one to one basis without bunching with any other transactions.
- The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGs is ₹ 2 lakh. There is no upper ceiling for RTGS transactions.

Indian Financial System Code (IFSC)

- IFSC or Indian Financial System Code is an alpha-numeric code that identifies a bank-branch participating in the NEFT.
- This is a 11 digit code with the first 4 alpha characters representing the bank and last 6 numeric characters representing the branch.
- IFSC is used by NEFT (RTGs to route the messages to the destination Banks/ Branches. RBI directs the Bank to print IFSC code on passbooks and statement of accounts.

International Financial Reporting Standards (IFRS)

A set of International Accounting Standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board. IFRS are sometimes confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced. (IAS were issued from 1973 to 2000.) IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC).

Tit-Bits

- The first experiments with **internet banking** started in the early 1980s, but it did not necome popular until the mid 1990s, when home internet access was widespread.
- In 199 Gujarat was the *first Indian* state to introduce a **smart card license** system.
- Resserve Bank of India has stated that finacial statements of banks need to be international Financial Reporting Standards (IFRS) compliant for periods beginning on after 1st April, 2011.

Major Efforts of International Banking

Base Rate System

- Base Rate system introduced in banking sector by the RBI with effect1st July, 2010.
- Base Rate system will replace Banchmark Prime Lending Rate (BPLR) introduced in 2003.
- Base Rate System introduced on the recommendation of Deepak Mohanty Committee-aims at enhancing transparency in lending rate of banks and enabling better transmission of monetary policy.

Basel Norms

Basel norms are set by Bank of International Settlement (BIS) in Basel, Switzerland. **55 countries** Central Bank are members to the BIS.

Basel II

It is a guide to capital adequacy standards for lenders. The aim of Basel II is to better align the minimum capital requred by Regulators (so-called regulatory capital) with risk.

Basel III Norms

It will become operational from 1st January, 2013 in a phased manner.

- Banks to increase their core **tier-one capital ratio** to 4.5%.
- Provision for a counter-cyclical capital conservation buffer of 2.5% by 2019.
- The total CRAR required Basel III is proposed at 10.5%.

Rules for Basel III

RBI released its guideline on Basel III capital regulation on 2nd May, 2012.

Guidelines for Basel III

1. Indian bank have to maintain. Tier-I capital or core capital atleast 7% of their risk weighted assets or ongoing basis.
2. The total capital ratio including tier-I and tier-II must be atleast 9%.
3. For tousle year ending 31st March, 2013 bank will have to disclose capital ratio computed under existing guidelines.

Technology Vendors and their Products

Vendor	Flagship Products and Application
i-flex Solutions (Oracle Financial Services Software limited)	• Flexcube core banking solutions, retail, corporate, internet banking, investor servicing and asset manager • Other offerings include flexcube lending suite, flexcube for Islamic banking, private banking • Reveleus- risk management solutions • Mantas-risk and compliance solutions
Infosys	• Finacle-core banking solutions, e-banking, CRM, treasury, cash management, wealth management, Islamic banking etc
TCS	• TCS BaNCS- suit of solutions, covering banking, capital market and insurance firms
Nucleus software	• Bank online-internet banking • Power card -Credit cards • FMS-fraud management system

Question Bank

1. A 'Debit Card' is issued by a bank to
   (1) all customers of a bank
   (2) all customers having Savings bank account with a bank
   (3) all customers having loan account with a bank
   (4) a bank customer who is income tax assesee
   (5) all corporate Salary account holder

2. A lot of Banks in India these days are offering M-Banking Facility to their customers. What is the full form of 'M' in 'M-Banking'? **[BOB 2008]**
   (1) Money
   (2) Marginal
   (3) Message
   (4) Mutual Fund
   (5) Mobile Phone

3. Which of the following is the limitation of the ATMs owing to which people are required to visit branches of the bank?
   [Indian Overseas Bank 2009]
   I. It does not accept deposits.
   II. It has a limited cash disbursement capacity.
   III. Lack of human interface.
   Select the correct answer using the codes given below
   (1) Only I
   (2) Only II
   (3) Only III
   (4) III, II and I
   (5) None of these

4. A Bank/Financial Organisation these days relies heavily on e-commerce for its transaction. As a part of system security, it has introduced the organisation's security awareness manual. This step of the organisation can be classified under, which one of the following categories of measures for a business? **[Indian Overseas Bank 2009]**
   (1) Preventive
   (2) Compliance
   (3) Corrective
   (4) Detective
   (5) None of these

5. Real time gross settlement benefits
   (1) the customers
   (2) the banks
   (3) Reserve Bank of India
   (4) Both 1 and 2
   (5) None of these

6. Which of the following banks has opened the country's first, 'Cash Factory' in Lucknow which will issue currency notes to all its branches and ATM in that area ?
   [Andhra Bank 2009]
   (1) Bank of India
   (2) Bank of Baroda
   (3) State Bank of India
   (4) Union Bank of India
   (5) None of these

7. As we all know, more and more countries/organisations are now going for non-cash transactions and accordingly banks have launched many new products in the market for the same. Which of the following products is a non-cash transaction product?
   [United Bank of India 2009]
   (1) Only ATM Card
   (2) Only Credit Card
   (3) Only Prepaid Card
   (4) Only Debit Card
   (5) All are non-cash transaction products

8. As we an have noticed, banks these days are giving more emphasis on 'Branchless Banking'. What does this really mean?
   [Syndicate Bank 2010]
   I. Banks will not have many branches as used to be in the good old days. Instead, the number of branches will be restricted and will conduct only a specified" core business.
   II. Banks will launch/operate many delivery channels like ATMs, Mobile Banking/ Internet Banking etc, so that people are not required to visit a branch for their usual banking needs.
   III. This means banks will issue only debit or credit cards for all types of day-to-day financial transactions. Cheques/cash payments will not be allowed.
   Select the correct answer using the codes given below
   (1) Only I
   (2) Only II
   (3) I and II
   (4) II and III
   (5) All of these

9. The financial assistance of loans of ₹ 10000 by a bank to very a small borrower will be called
(1) Business finance
(2) Government finance
(3) Micro finance
(4) Small finance
(5) KYC finance

10. One of the major emphasis of Base II is that banks should have **[Allahabad Bank 2010]**
(1) adequate Capital Adequacy Ratio
(2) only few branches in urban centres
(3) more and more branches in rural areas
(4) core banking mode of operation
(5) All of the above

11. A–card stores and provide identification, authentication, data storage adn application processing applications
(1) Debit Card
(2) Smart Card
(3) Credit Card
(4) ATM Card
(5) None of the above

12. As per the news published in major newspaper/journals hence forth the Credit card holders will be able to access their credit card information though automated interactive voice response system over the phone instead of speaking to the staff. This decision of the banks/credit card companies will provide **[Central Bank of India 2010]**
I. an additional hurdle to the customers as people feel comfortable in talking to the staff instead of talking to a machine.
II. an additional security to the customers as this does not allow any staff to handle any transaction directly.
III. some comfort to the banks as they will be able to reduce their staff strength.

Select the correct answer using the codes given below
(1) Only I
(2) Only II
(3) Only III
(4) All of the above
(5) None of the above

13. The YH Malegam Committee, which Submitted its report a few months back, was set-up to report on further improvement of functioning of **[RBI 2011]**
(1) Micro Finance Institutions
(2) Stock Exchanges in India
(3) Cooperative Banks
(4) Regional Rural Banks
(5) Foreign Banks having offices in India

14. Basel-II norms are associated with which of the following aspects of the banking industry? **[Punjab and Sindh Bank 2011]**
(1) Risk management
(2) Manpower planning
(3) Retirement benefits for the employees
(4) Corporate governance
(5) None of the above

15. Which of the following is known as Plastic Money ? **[Indian Overseas Bank 2011]**
I. Demand Draft
II. Credit Card
III. Debit Card

Select the correct answer using the codes given below
(1) Only I
(2) Only II
(3) Only III
(4) Both II and III
(5) All of the above

16. Many times we read a term CBS used in banking operations. What is the full form of the letter C in the term 'CBS' ? **[Indian Overseas Bank 2011]**
(1) Complete
(2) Credit
(3) Continuous
(4) Core
(5) None of these

17. Which of the following sectors makes maximum contribution to the national income of India ? **[Indian Overseas Bank 2011]**
(1) Services
(2) Agriculture
(3) Industry
(4) Both 2 and 3
(5) None of the above

18. In respect of which one of the following areas, YH Malegam Committee has submitted its recommendations? **[Andhra Bank 2011]**
(1) Interest on Micro finance loans
(2) Teaser loans (3) Rural development
(4) Advances to agriculture
(5) None of these

19. A centralised database with online connectivity to branches, Internet as well as ATM network which has been adopted by almost all major banks of our country is known as? **[IBPS 2011]**
(1) Investment banking (2) Core banking
(3) Mobile banking (4) National banking
(5) Specialised banking

20. Which of the following is not a banking/finance related term?
(1) Credit wrap (2) EMI
(3) Held to Maturity (4) Exposure limit
(5) Diffusion

21. Which of the following acts is specially launched to facilitate banks in recovery of bad loans?
(1) RBI Act
(2) Banking Regulation Act
(3) Companies Act (4) Income Tax Act
(5) SARFAESI Act

22. Which of the following is/was not included in the agenda set for the banking reforms in India? **[Andhra Bank 2011]**
(1) Dismantling of administered interest rates
(2) Measures to strengthen risk management
(3) Promulgation of Sarfaesi Act
(4) Promotion of the concept of easy credit to all with a guaranteed subsidy from the government
(5) Granting of operational autonomy to public sector banks and allowing them to raise capital from the open market

23. NEFT means **[IBPS 2011]**
(1) National Electronic Funds Transfer System
(2) Negotiated Efficient Fund Transfer System
(3) National Efficient Fund Transfer Solution
(4) Non-Effective Fund Transfer System
(5) Negotiated Electronic Foreign Transfer System

24. Structure of Basel II is based on how many pillars ? **[Indian Overseas Bank 2011]**
(1) Two (2) Ten
(3) Four (4) Five
(5) Three

25. Which of the following is the popular name of the norms by which a bank satisfies itself about the customer's identity and activities? **[Corporation Bank 2011]**
(1) Basel norms
(2) KYC norms
(3) Service norms
(4) Lending norms
(5) None of the above

26. Which of the following is the purpose of introducing 'Know Your Customer' norms by the banks? **[SBI 2011]**
(1) To bring more and more people under the banking net
(2) Identifying people who do not pay income tax
(3) To ensure that the money deposited in banks has come from genuine sources
(4) To ensure whether the money deposited in the bank is of an India or a foreign national
(5) None of the above

27. In which of the following fund transfer mechanisms, can funds be moved from one bank to another and where the transaction is settled instantly without being bunched with any other transaction? **[IBPS 2012]**
(1) RTGS (2) NEFT
(3) TT (4) EFT
(5) MT

28. Which of the following is not an objective of financial sector reform in India ?
(1) Creating an efficient, productive and profitable financial sector industry
(2) Preparing the financial system for increasing international competition
(3) Opening the external sector in a calibrated fashion
(4) Reducing the fiscal deficit
(5) Promote the maintenance of financial stability even in the face of domestic and external environment

29. The Narasimham Committee-I was set-up to suggest some recommendations for improvement in the
    (1) efficiency and productivity of the financial institution
    (2) banking reform process
    (3) export of IT sector
    (4) fiscal reform process
    (5) None of the above

30. Narsimham Committee recommended to reduce SLR and CLR to
    (1) 25% and 3.5% respectively
    (2) 24% and 3.5% respectively
    (3) 25% and 3% respectively
    (4) 20% and 5% respectively
    (5) 25% and 5% respectively

31. Which of the following is not a recommendation of the Narsimham Committee, 1991?
    (1) Reduction of CRR and SLR
    (2) Phasing out directed credit programme
    (3) Reduction of Capital Adequacy Ratio
    (4) Establishment of ARF Fund
    (5) Autonomy to Public Sector Bank

32. Which of the following banks have entered capital market in the wake of Narasimham Committee recommendations?
    (1) State Bank of India
    (2) Oriental Bank of Commerce
    (3) Bank of India
    (4) All of the above
    (5) None of the above

33. The Narsimham Committee-II was set-up to suggest some recommendations for improvement in the
    (1) efficiency and productivity of the financial institution
    (2) banking reform process
    (3) export of IT sector
    (4) fiscal reform process
    (5) None of the above

34. One of the major challenges banking industry is facing these days is money laundering. Which of the following acts/norms are launched by the banks to prevent money laundering in general?
    (1) Know Your Customer Norms
    (2) Banking Regulation Act
    (3) Negotiable Instrument Act
    (4) Narcotics and Psychotropic Substance Act
    (5) None of the above

35. The New Capital Adequacy Framework prescribed for the banks is commonly known as
    (1) Credit Policy
    (2) Monetary Policy
    (3) KYC Norms
    (4) Basel Accord
    (5) None of these

36. Which of the following are the recommendation of the Committee on Banking Sector Reforms (Narasimham Committee-II)?
    (1) A general provision of 1% on standard assets should be introduced
    (2) Banks should bring out revised operational manuals and update them regularly
    (3) There is a need for disclosure in a phased manner of the maturity pattern of assets and liabilities, foreign currency assets and liabilities, movements in provision account and NPAs
    (4) All of the above
    (5) None of the above

37. The recommendations of the Committee on Banking Sector Reforms (Narasimham Committee-II) include
    (1) the 'Basle Core Principles of Effective Bank supervision' should be regarded as the minimum to be attained
    (2) the banks and primary dealers alone should be allowed in the inter-bank call and notice money markets
    (3) opening the Treasury Bill market to foreign institutional investors for broadening its base
    (4) All of the above
    (5) None of the above

38. Which of the following certainly is an effort in the direction of Financial Inclusion?
    (1) Internet Banking
    (2) Anywhere Banking
    (3) No-Frills Accounts
    (4) Foreign Currency Accounts
    (5) All of the above

39. Machine, within or outside the bank premises that enables customers to conduct cash withdrawals and other specific banking transactions without the help of bank staff, is called
    (1) Automated Teller Machine (ATM)
    (2) PC
    (3) internet
    (4) intranet
    (5) servers

40. A working group on cheque transactions and E-cheques was constituted by the Reserve Bank of India under the chairmanship of Dr RB Barman and major recommendations of group include
    (1) the physical cheque will be truncated within the presenting bank
    (2) settlement will be generated on the basis of current MICR code line data
    (3) electronic images will be used for payment processing
    (4) All of these
    (5) None of these

41. Which of the following are the other recommendations made by the working group?
    (1) Grey scale technology will be deploy for imaging
    (2) Images will be preserved for eight years
    (3) A centralised agency per clearing location will act as an image warehouse for the banks
    (4) Both 1 and 2
    (5) All of these

42. Which of the following is/was not included in the agenda set for the Banking Reforms in India?
    (1) Dismantling of administered interest rated
    (2) Measures to strengthen risk management
    (3) Promulgation of SARFAESI Act
    (4) Promotion of the concept of easy credit to all with a guaranteed subsidy from the government
    (5) Granting of operational autonomy to public sector banks and allowing them to raise capital from the open market

43. Which of the following organisations/agencies works solely to monitor and arrange flow of agriculture credit in India?
    (1) NABARD
    (2) SIDBI
    (3) RBI
    (4) SEBI
    (5) None of these

44. Insurance companies in India are regulated by
    (1) AMFI
    (2) IRDA
    (3) SEBI
    (4) RBI
    (5) NABARD

45. Department of Economic Affairs is past of which of the following Ministries?
    (1) Ministry of Home Affairs
    (2) Ministry of Rural Development
    (3) Ministry of Planning
    (4) Ministry of Heavy Industries and Public Enterprises
    (5) None of the above

46. When banks accept of fixed sum of money from an individual for a definite term and pay on maturity with interest, the deposit is known?
    (1) Term deposit
    (2) Demand deposit
    (3) Bond
    (4) Mortagage
    (5) Advance

47. Which of the following is a leading electronic payment technology firm ? (The logo of the firm can be seen printed on credit cards/ATM centres etc.
    (1) Visa
    (2) Max
    (3) BSE
    (4) Sensex
    (5) SWAP

48. Which of the following is not a scheduled Commercial Bank?
    (1) IDBI Bank
    (2) Axis Bank
    (3) HDFC Bank
    (4) NABARD
    (5) Kodak Mahindra Bank

49. What is the full form of 'CRR' as used in banking sector?
    (1) Crucial Reserve Rate
    (2) Cash Reserve Ratio
    (3) Compulsory Return Rate
    (4) Credit and Reserve Ratio
    (5) None of the above

50. What is the full form of LAF, the term used in banking world very frequently?
    (1) Liquid Advance and Finance
    (2) Liquidity Adjustment Facility
    (3) Legal Adjournment Formality
    (4) Local Advance Finance
    (5) Late Arrival of Finance

51. As per newspaper reports ANZ was given licence to open branch in Mumbai. ANZ is a bank based in

(1) Australia
(2) Argentina
(3) Afghanistan
(4) Angola
(5) Austria

52. When ever somebody needs foreign currency against Indian Rupee, banks give equivalent amount of desired currency based on prevalent?

(1) Bank rate
(2) Currency rate
(3) Policy rate
(4) Exchange rate
(5) Base rate

53. Many Regional Rural Banks are given licence to poen branches in small cities and towns. These licences are given by

(1) Cabinet Committee on economic affairs
(2) Reserve Bank of India
(3) NABARD
(4) Indian Banks' Association
(5) None of the above

54. Which of the following organization/ agencies is not associated with the world of banking and finance?

(1) SEBI *(2)* AMFI
(3) RBI *(4)* ECGC
(5) SPCA

55. Banks recover term loan from the parties in EMIs. What the letter 'E' represents in the term?

(1) Easy *(2)* Effective
(3) Equated *(4)* Essential
(5) Economical

56. Which one of the following does not qualify as priority sector lending by commercial banks?

(1) Software industries
(2) Small business loans
(3) Education loans
(4) Small loans to rural educated unemployed
(5) None of the above

57. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act at present is not applicable to

(1) public sector banks
(2) private banks
(3) non-banking financial companies
(4) financial institutes of the government
(5) None of the above

58. Bank are required to provide loans to the priority sector upto a specified limit. What is the limit for public sector banks?

(1) 40% *(2)* 32%
(3) 45% *(4)* 35%
(5) 60%

59. Non-performing assets are cause for serious concerns for banks. Why are these loans known as non-performing?

(1) Recovery of bank's funds are difficult
(2) Interest on these accounts are not charged
(3) Banks have to make provision for these loans in their balance sheet
(4) All of the above
(5) None of the above

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1. (2)	2. (5)	3. (4)	4. (1)	5. (4)	6. (3)	7. (5)	8. (5)	9. (3)	10. (1)
11. (1)	12. (2)	13. (1)	14. (1)	15. (4)	16. (4)	17. (5)	18. (1)	19. (2)	20. (5)
21. (5)	22. (4)	23. (1)	24. (5)	25. (2)	26. (3)	27. (1)	28. (4)	29. (1)	30. (1)
31. (1)	32. (4)	33. (2)	34. (1)	35. (4)	36. (4)	37. (4)	38. (3)	39. (1)	40. (4)
41. (5)	42. (1)	43. (1)	44. (2)	45. (5)	46. (1)	47. (1)	48. (4)	49. (2)	50. (2)
51. (1)	52. (4)	53. (2)	54. (5)	55. (3)	56. (1)	57. (3)	58. (1)	59. (4)	

Chapter

5

Financial Banking Institutions in India

Finance

It is the procurement (to get, obtain) of funds and effective utilisation of funds. It is the science that describes the management, creation and study of money, banking, credit, investments, assets and liabilities. Finance consist of financial system which include the public, private and government spaces and the study of finance and financial instruments, which can relate to countless assets and liabilities.

Categorisation of Finance

Finance can be categorised into three types according to their objectivity

1. **Short-Term Finance** It is often referred to as bridging finance, usually refers to loans mostly offered on terms of up to 12 months.
2. **Mid-Term Finance** This type of finance is given for longer period. It is for period saying from 12 months to 5 years. Prominently is given for machines, land separation etc.
3. **Long-Term Finance** These are given for term extending more then 5 year. It is given for creating permanent structures.

Financial Institutions

Financial institutions of Indian money market are *divided into organised sector and unorganised sector*

Organised Sector

Organised sector of Indian money market is that sector whose parts and activities are systematically co-ordinate by the monetary authority.

It comprises of the following institutions

- **Reserve Bank of India** At the apex of India, money market is the Reserve Bank of India. It is the Central Bank of the country.
- **Commercial Banks** The Commercial Banks dominate the organised sector. It includes Public Sector Banks (State Bank of India + its Associate Banks + Nationalised Banks + Regional Rural Banks) and Private Sector Banks (Scheduled Banks + Non-Scheduled Banks + Foreign Banks).

- **Co-operative Banks** They are a part of co-operative credit institutions that have a three-tier structure. At the top, there are State Co-operative Banks. At the district level, there are Central Co-operative Banks. At local level, there are Rural Primary Co-operative Banks and Urban Co-operative Banks.

Unorganised Sector

The unorganised market is that market whose activites are not systematically coordinated by the monetary authority. It is largely made up of indigenous bankers, moneylenders, Chit funds, Nidhis etc.

Financial Instruments

Financial instruments provides short-term credit. These include Bills, Treasury Bills, Promissory Notes, Hundis, Certificates of Deposits (CD) and Commercial Papers.

Sources of Finances

There are two types of sources

1. Institutional sources
2. Non-institutional sources

Institutional Sources

The organisation and institutes which are established to provide loan are called institutional sources of finance. The main purpose of these institution are to arrange the finance. Insurance companies, banks, co-operative societies, UTI are the some example of financial institutions.

Non-Institutional Sources

Loan taken from friends, relatives, money lenders, mahajans are called non-institutional sources of finance.

Financial Institutions for Agriculture

For the purpose of giving loan to agricultural sector, many financial institutions have been created jointly by government of India and RBI. Few of these institutions are co-operative bank like RRBs, NABARD etc.

Commercial Bank

From 1st February, 1969, the government imposed social control on banks by introducing certain provisions in the Banking Regulation Act, 1949. It imposed severe restrictions on the composition of the Board of Directors and internal management and administration of banking companies. It also introduced restrictions on advances by banking companies.

These were intended to ensure that the bank advances were not confined to large scale industries and big business houses, but were also directed, in due proportion to other important sectors like agriculture, small scale industries and exports.

Co-operative Credit Societies

In India, Co-operative Banks are registered under the Co-operative Societies Act, 1912. They generally give credit facilities to small farmers, salaried employees, small scale industries etc. Co-operative Banks are in rural as well as in urban areas. The functions of these banks are just similar to that of Commercial Banks.

Land Development Bank

Special type of credit societies called Land Development Bank have been formed to meet the long-term credit requirement of farmers. These banks are now called state co-operative Agricultural and Rural Development Bank (DB).

These banks were first established in the Jhang area of undivided Punjab and were called land mortgage bank. But it real start corresponds to the years 1929, when one central land development bank was opened in Madras. The banks size long term loan against mortgage of land.

Lead Bank Scheme

The lead bank role is to act as a consortium leader for co-coordinating the efforts of all credit institutions in each of the allotted districts for expansion of branch banking facilities and for meeting the credit needs of the rural economy.

For the preparation of District Credit Plans and monitoring their implementation a Lead Bank Officer (LBO) now designated as Lead District Manager was appointed in 1979.

Regional Rural Bank (RRB)

In 1976, the Parliament enacted the Regional Rural Banks Act, 1976 to provide for the incorporation, regulation and winding up of Regional Rural Banks. The Act has been made effective from the 26th September, 1975.

At present there are 82 Regional Rural Banks in 27 States and UTs. The states and UTs, where there is no presence of RRBs are Goa, Sikkim, Delhi, Chandigarh, Andaman and Nicobar Islands, Lakshadweep, Dadra and Nagar Haweli, Daman and Diu. The equity of the RRBs is contributed by the Central Government, concerned State Government and the sponsor bank in the proportion of 50:15:35.

First Five RRBs

- Moradabad (UP)
- Gorakhpur (UP)
- Bhiwani (Haryana)
- Jaipur (Rajasthan)
- Malde (Paschim Banga)

Important Committees of Regional Rural Bank

Committee on Rural Banks (Dantwala Committee, 1978) Commercial Banks functioning in the area of operation of RRBs should progressively entrust the credit business of their rural branches to RRBs keeping in view the capacity of RRBs to shoulder the added responsibility.

Committee to Review Arrangements for Institu- tional Credit for Agriculture and Rural Develop- ment (CRAFICARD, 1981) The losses incurred by a RRB should be made good annually by the shareholders in the same proportion of their shareholdings.

Agricultural Credit Review Committee (ACRC, 1989) The committee noted that major factor which contributed to the erosion of RRBs' margins and high operating costs involved in handling of small loans.

Advisory Committee on Flow of Credit to Agriculture and Related Activities (Dr Vyas Committee, 2004)

The main recommendations of this committee are

All RRBs in the North Eastern states be merged into a Zonal bank on stand alone basis, the equity of which is to be provided by NABARD, SBI and UBI in the ratio of 26:37:37 through a holding company.

Tit-Bits

- **Rural Infrastructure Development Fund** was set-up in 1995-93, under NABARD for holistic rural development.
- At present there are 82 RRBs in 27 states and UTs except Goa, Sikkim, Delhi, Chandigarh, Andaman and Nicobar Island, Dadar Nagar Haweli, Daman and Diu.

National Bank for Agricultural and Rural Development (NABARD)

It is one of the subsidiaries where the majority stake is held by the Reserve Bank. NABARD is an apex development bank with a mandate for facilitating credit flow for promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.

Kisan Credit Card Yojna

It was started by hol RBI and NABARD in August, 1998 to help the farmers across timely and adequately credit. Since, 1998 about 10.78 crore KCCS had been issued upto outlen, 2011.

Development Banks

RIFD (Rural Infrastructure Development Fund) Deficient, Rural infrastructure hinders both social and economic development. Economists have explicitly emphasised on the directs correlation between the index of infrastructure development and rural development. NABARD's support to State Governments through RIDF since, 1995-96 has brought about a sea change in the shape of upgraded infrastructure in rural areas. Rural roads and bridges under RIDF have improved market access to farmers check dams and irrigation structures have augmented their water resources.

Priority Sector Lending Policy (PSLP) RBI introduced the system of priority sector lending to ensure that banks increase their involvement in the financing of priority sectors like agriculture, small industries, etc.

Presently, all domestic Commercial Banks and Foreign Banks with more than 20 branches are to lend 40% of their adjusted Net Bank Credit to priority sector. Banks who fail to achieve priority sector targets have to contribute funds to financial institutions like SIDBI/RIDF etc as specified by RBI.

Financial Institutions for Industries

Public Issues

Capital market constitutes primary (new issue market) and secondary (stock) market. The primary market helps the public and private sector companies in raising finance mainly for their new projects, expansion, modernisation and acquisitions.

Secondary market provides liquidity for the financial instrument (equity, preference share, debenture/land) through adequate market- ability and price continuity. The array of financial institutions also have played crucial role in meeting long-term credits needs of the industrial sector. As per new guidelines issued by SEBI Companies are required to list share within 21 days of the closure of IPD.

Public Deposits

Public deposits are an important source of financing the medium-term and long-term requirement of company. It implies any money received by a company through deposit or loan collected from public. The public includes the general public, employee and shareholders of company, but excludes the money received in the form of shares and debentures.

Commercial Banks

Banks are the dominant financial intermediaries in developing countries like India. It is an important source of industrial finance. The dependence on bank for finance could vary according to the size of the companies. The small scale industrials units have increased their dependence on banks for loans because they have virtually no access to capital market.

Industrial Bank

Small Industries Development Bank of India (SIDBI), set-up on **2nd April, 1990** under an Act of Indian Parliament.

Function Presently acts as the Principle Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and also co-ordinates the functions of the institutions engaged in similar activities. SIDBI also extends financial assistance in the form of loans, grants, equity and quasi-equity to Non Government Organisations/ Micro Finance Institutions (MFIs) for on-lending to micro enterprises and economically weaker sections of the society, enabling them to take up income generating activities on a sustainable basis.

Financial Institutions for Specific Areas

Export-Import Bank of India (EXIM)

Exim Bank of India is the premier export finance institution in India, **established in 1982** under the Export-Import Bank of India Act 1981.

Function Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Commencing operations as a purveyor of export credit, Exim Bank of India has, over the period, evolved into an institution that plays a major role in partnering Indian industries, particularly the small and medium enterprises, in their globalisation efforts, through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment.

Unit Trust of India (UTI)

Unit Trust of India is a financial organisation in India, which was created by the UTI Act passed by the Parliament in 1963 (30th December, 1963).

UTI Bank changed its name to Axis Bank effective 1st August, 2007.

Function It offers financial services to customer segments covering large and mid-corporates, MSME, agriculture and retail businesses.

Indian Industrial Development Bank of India (IDBI)

It was established in 1964 by an Act of Parliament.

Function To provide credit and other facilities for the development of the fledgling Indian industry. IDBI Bank is on a par with nationalised banks and the SBI Group as far as government ownership is concerned.

Industrial Credit and Investment Corporation of India (ICICI)

ICICI Bank was established by the Industrial Credit and Investment Corporation of India, an Indian financial institution, as a wholly owned subsidiary in 1955.

Function It offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialised subsidiaries in the areas of investment banking, life, non-life insurance, venture capital and asset management.

National Housing Bank (NHB)

It was set-up on 9th July, 1988 under the National Housing Bank Act, 1987 as a wholly-owned subsidiary of the Reserve Bank to act as an apex level institution for housing.

NHB has been established to achieve, among other things, the following objectives are as follows

- To provide a sound, healthy, viable and cost effective housing finance system to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelise them for housing.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on regulatory) and supervisory authority derived under the Act.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage public agencies to emerge as facilitators and suppliers of serviced land for housing.

All India Financial Institutions : *At a Glance*

Financial Institution and their Headquarters	Purpose
Industrial Finance Corporation of India (IFCI) 1948, New Delhi	• To grant loans advances to industrial concerns and subscribe to debentures floated by them.
State Finance Corporations (SFCs) 1951	• To finance the needs of the small-scale and medium sized industries in respective states. • 28 SFCs are in operations along with 28 State Industrial Development Corp (SIDC).
Industrial Credit and Investment Corporation of India (ICICI) 1955, Mumbai	• To stimulate the promotion of new industries and assist in modernisation of existing industries. • In 2002, ICICI merged with ICICI Bank no more a DFI.
Industrial Development Bank of India (IDBI) 1964, Mumbai	• To meet the financial needs of industrialisation and co-ordinate with all other agencies concerned with industrial development finance. Wholly owned subsidiary of RBI till 1976. • Merged with IDBI Bank in 2004.

Financial Institution and their Headquarters	Purpose
Unit Trust of India (UTI) (1964)	• Set-up as an investment institution to stimulate and pool the savings of the middle and low income groups. • UTI bifurcated into two parts (i) UTI Mutual Fund (ii) Specified Undertaking of UTI (SUUTI)
EXIM Bank (1982), Mumbai	• To finance, facilitate and promote foreign trade in India. • It is a specialised financial institution.
As on March, 2010	• Four institutions namely EXIM Bank, NABARD, NHB and SIDBI regulated by the RBI as all India financial institutions.
Industrial Investment Bank of India (IIBI)1985	• To assist the industrial units in Eastern region.
National Housing Bank (NHB) 1988, New Delhi	• It is the apex institution of housing finance in India and is a wholly owned subsidiary of the RBI. • Launched RESIDEX for tracking prices of residential properties in India in 2007. At present, RESIDEX covers 15 cities in India. • It is a refinance institution.
Tourism Finance Corporation of India Ltd (TFCI)—1989, New Delhi	• Set up on the recommendation of Yunhs Committee on Tourism. • It is a specialised finance institution providing assistance to tourism related activities/projects.
Small Industries Development Bank of India (SIDBI), Lucknow, 1990	• To promote, finance and development industry in small scale sector.

Non-Banking Financial Company (NBFC)

It is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/ debentures/ securities issued by government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business.

It does not include any institution whose prinicipal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/ construction of immovable property.

A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

Difference between Bank and NBFCs

- NBFC cannot accept demand deposits;
- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Types of Services provided by NBFCs

NBFCs provide range of financial services to their clients.

Types of services under non-banking finance services include the following

- Hire purchase services
- Leasing services
- Housing finance services
- Asset management services
- Venture capital services
- Mutual benefit finance services (Nidhi) banks.

NBFCs are essentially banks, since they perform the basic twin functions of attracting deposit from the public and making loans. However, unlike Commercia Banks, they are not incorporated as a bank and are no governed by the provision of the Banking Regulation Act, 1949.

RBI directions for NBFC's functioning

- With the enactment of RBI (Amendment) Act, 1997, the RBI now control the functioning of NBFCs.
- NBFCs as a whole account for 11.2% of assets of the total financial system.
- *Two broad categories of NBFCs are*
  1. Deposit taking NBFCs (NBFCs-D)
  2. Non-deposit taking NBFCs (NBFCs -ND).
- Capital to Risk-weighted Assets Ratio (CRAR) norms were made applicable to NBFCs-D in 1998. The CRAR norm for NBFC-D is 12% (15% in case of unrated NBFCs-D).
- NBFCs-ND-SI are Non-Deposit taking systemically important NBFCs as they have asset size of 100 crore and above.
- Mutual Funds are the most important among the newer capital market institutions. MFs function is to mobilise the savings of the general public and invest them in stock market securities.
- **Venture Capital Funds** (VCFs) essentially give commercial support to new ideas and for the introduction and adaptation of new technologies.
- Government launched the **National Venture Fund for Software and IT Industry** (NVFSIT) to provide technology development especially for small and medium enterprises, NVFSIT is managed by SIDBI.

Financial Inclusion

It refers to the delivery of banking service at an affordable cost to the vast sections of disadvantaged and low income groups of the population. The purpose of financial inclusion is to provide access to banking, access to affordable credit and access to free information on money matters. This concept has become a part of public policy so as to make available banking and payment services to the entire population without discrimination. The primary aim is to avoid the pitfalls of financial exclusion in the form of social tension arising from lack of empowerment of the low income strata of the population.

Steps taken for Financial Inclusion

- RBI's No Frills accounts for poor people. Later renamend to Basic Savings Bank Deposit Account (BSBDA).
- Government launched Swabhiman project to extend banking services to rural areas.
- RBI permitted Business Correspondents (BC) system. Banks extend their services to villagers with help of these agent.
- Bhartiya Mahila Bank set-up and owned by GOI, exclusively for women is a initiative towards financial inclusion.
- RBI has ordered the banks to open at least 25% of their new branches in unbanked rural centres.
- Government's Direct Benefit Transfer (DBT) initiative. Money directly sent to beneficiary's bank account.
- If he doesn't have bank account already then it'll be opened.
- RBI relaxed Know Your Customer (KYC) norms for small value accounts. RBI allows customer accounts to be opened without any documentary proof of identity or current address if the amounts involved are less than ₹ 50,000.
- RBI permitted Aadhar card can be used as proof, for opening bank account. General purpose Credit Card (GCC) and Kisan Credit Card (KCC) to help people get loans easily.
- Post office has tied up with LIC, offering variety of insurance schemes, particularly targeting rural junta *e.g.*, Gram Surakha, Suvidha Sumangal etc.
- RBI and SEBI running financial literacy campaigns.

Co-operative Marketing

It is term used in the world of business advertisements to mean marketing initiative that involves more than one institution. Market value means the probable price of a product or service in the market.

Role of Co-Operative Marketing in Agricultural Produce

Agriculture is basically different from manufacture. The problems faced by it in the sale of surplus goods is quite complex and complicated. The farmers who have surplus goods have to sell these generally in un-regulated markets. They, therefore, do not get fair and reasonable price for their produce due to number of reasons. *e.g.*, the goods produced by the farmers are generally perishable and cannot be stored for a longer period of time. Their is less grading of agricultural produce.

No market news service is easily available to the farmers. There is a long chain of middlemen who take away about 1/8th of the hard earned income of the farmers. The transport and storage facilities are not only inadequate, but also expensive. In order to help the farmers for getting a fair return of their surplus produce, establishment of cooperative sale societies are considered the best solution to help the agriculturists at the village end.

Co-Operative Marketing Mechanism

NAFED (National Agricultural Co-operative Marketing Federation India Limited) It was established on 2nd October, 1958. It is registered under the Multistate Co-operative Societies Act. NAFED was set-up with objective to promote co-operative marketing of agricultural produce to benefit farmers. It organise, promote and develop marketing, processing and storge of agricultural, horticultural and forest produce.

TRIFED (Tribal Co-operative Marketing Development Federation of India Limited) It came into existence on 6th August, 1987 and got registered under the multistate co-operative societies Act, 1984, (How the Multistate Co-operative Societies Act, 2002). The main objective of TRIFED is to serve the interest of its member in more than one state for the social and economic betterment of its member by conducting its affair in professional, democratic and autonomous manner through self help and mutual co-operation for undertaking marketing development of the tribal products.

Financial Stability and Development Council (FSDC)

Financial Stability and Development Council is apex-level body constituted by government of India. The idea to create such a super regulatory body was first mooted by Raghuram Rajan Committee in 2008.

Composition of the Council Chairperson

The Union Finance Minister of India and others Members are-Governor Reserve Bank of India (RBI), Finance Secretary and/ or Secretary, Department of Economic Affairs (DEA),Secretary, Department of Financial Services (DFS),Chief Economic Advisor, Ministry of Finance, Chairman, Securities and Exchange Board of India (SEBI), Chairman, Insurance Regulatory and Development Authority (IRDA), Chairman, Pension Fund Regulatory and Development Authority (PFRDA), Chairman, Forward Markets Commission (FMC), Additional Secretary, Ministry of Finance, DEA, will be the Secretary of the Council. The Chairperson may invite any person whose presence is deemed necessary for any of its meeting(s).

Question Bank

1. Which one of the following whose activities are not systematically coordinated by the monetary authority?
   I. Organised sector
   II. Unorganised sector
   III. Co-operative sector

   Select the correct answer using the codes given below
   (1) Only II (2) I and III
   (3) Only I (4) II and III
   (5) Only III

2. Which programme was instituted to help the farmers across timely and adequently credit?
   (1) Kisan Credit Card Yojna
   (2) MNREGA
   (3) RSBY
   (4) Aam Admi Bima Yojna
   (5) All of the above

3. Which financial institution established by IBRD-American Mission, in 1955?
   (1) IDBI (2) ICICI (3) SBI (4) RRB
   (5) PNB

4. Axis Bank is the changed name of
   (1) IDBI (2) ICICI (3) UTI (4) UTO
   (5) RBI

5. Which one of the following dominate the organised sector?
   (1) RBI (2) Commercial Bank
   (3) Co-operative Bank (4) RRBs
   (5) SBI

6. 'Sensitive sector' as defined by RBI include(s)
   (1) capital market (2) real estate
   (3) commodities (4) All of these
   (5) None of these

7. National Saving Scheme (NSS-92) has been closed by the government since
   (1) 1st November, 1999
   (2) 1st November, 2000
   (3) 1st November, 2001
   (4) 1st November, 2002
   (5) 1st November, 2003

8. As per the new guidelines issued by SEBI, companies are required to list shares within how many days of the closure of the Initial Public Offers (IPOs)?
   (1) 12 days (2) 15 days
   (3) 21 days (4) 30 days
   (5) 25 days

9. 'Smart Money' is a term used for
   (1) internet banking
   (2) FDRs in banks
   (3) credit cards
   (4) demand drafts of banks
   (5) bank rate

10. Which of the following key rate has not been altered by RBI since 2003?
    (1) Bank rate
    (2) Statutory liquidity ratio
    (3) Cash reserve ratio
    (4) Repo rate
    (5) All of the above

11. Which one of the public sector bank has completed 100 years of its establishment on 21st December, 2011?
    (1) Central Bank of India
    (2) State Bank of India
    (3) Punjab National Bank
    (4) Bank of Baroda
    (5) Allahabad Bank

12. Which institution provides long run finance to industries?
    (1) UTI (2) LIC (3) GIC (4) IDBI
    (5) All of these

13. Open Added Money Market Scheme was firstly introduced by
    (1) UTI (2) IDBI
    (3) ICICI (4) LIC
    (5) None of these

14. Bank of Rajasthan was merged with
    (1) HDFC Bank (2) ICICI Bank
    (3) AXIS Bank (4) Citi Bank
    (5) None of these

15. Match the following

List I	List II
A. Agricultural Sector	1. Unit Fund
B. Industrial Sector	2. Enacted by Parliament in 1976
C. Unorganised Sector	3. NABARD
D. RRB	4. Public Issue

Codes

	A	B	C	D		A	B	C	D
(1)	3	4	1	2	*(2)*	4	3	2	1
(3)	1	2	3	4	*(4)*	3	2	4	1
(5)	2	3	1	4					

16. The majority stake of subsidiaries of NABARD is held by

(1) SBI *(2)* RRB *(3)* RBI
(4) Co-operative Bank *(5)* PNB

17. Which committee firstly mooted to create a super regulatory body for financial stability and Development Council?

(1) Raghuram Rajan Committee
(2) Vijay Kelkar Committee
(3) V Patel Committee
(4) Parikh Committee
(5) None of the above

18. When NAFED (National Agricultural Co-operative Marketing Federation India Limited) was established?

(1) 3rd October, 1958 *(2)* 1st October, 1958
(3) 2nd October, 1958 *(4)* 15th August, 1959
(5) 1st December, 1959

19. NVFSIT (National Venture Fund for Software and IT Industry) is managed by SIDBI to

(1) provide technology development especially for small and medium enterprises
(2) mean marketing initiative
(3) promote co-operative marketing of agricultural produce to benefit formers
(4) None of the above
(5) All of the above

20. Commercial paper are issued by

(1) company to a bank
(2) banks to companies
(3) bank to banks
(4) company to its suppliers
(5) None of the above

21. Regional Rural Banks were set-up vide

(1) Reserve Bank of India Act
(2) Regional Rural Banks Act, 1976
(3) NABARD Act
(4) HDFC Bank Act
(5) None of the above

22. Regional Rural Banks carry on normal banking business as defined in

(1) Reserve Bank of India Act
(2) Banking Regulation Act, 1949
(3) Regional Rural Bank Act, 1949
(4) Companies Act, 1956
(5) None of the above

23. Regional Rural Banks are classified under

(1) Land Developments Banks
(2) Co-operative Banks
(3) Commercial Banks
(4) Public Sector Banks
(5) None of the above

24. The Export Import Bank of India was set-up in

(1) July, 1969
(2) April, 1970
(3) January, 1982
(4) April, 1982
(5) None of the above

25. Exim Bank also provides

(1) refinance facilities
(2) consultancy and technology services
(3) services of finding foreign markets for exporters
(4) All of the above
(5) None of the above

26. Exim Bank concentrates on

(1) medium-term financing
(2) short-term financing
(3) short and medium-term financing
(4) short and long-term financing
(5) None of the above

27. Exim Bank extends facility of

(1) rediscounting of foreign bills of commercial banks
(2) advisory services to the exporters
(3) research and market surveys
(4) All of the above
(5) None of the above

28. ICICI provides financial assistance to
(1) small-scale industries
(2) medium-scale industries
(3) large-scale industries
(4) All of the above
(5) None of the above

29. ICICI provides assistance by way of
(1) long and medium-term loans and equity participation
(2) guaranteeing rupee and foreign currency loans raised from other sources
(3) underwriting issues of shares and debentures
(4) All of the above
(5) None of the above

30. The most significant feature of ICICI's operations is
(1) the foreign currency loans sanctioned by it
(2) to channelise World Bank Funds to industry in India and to build capital market in India
(3) the refinance facilities extended by it
(4) Both '1' and '2'
(5) None of the above

31. NABARD provides refinance to
(1) scheduled commercial banks
(2) co-operative banks
(3) regional rural banks
(4) All of the above
(5) None of the above

32. NABARD provides refinance assistance for
(1) promotion of agriculture
(2) promotion of small scale industries
(3) cottage and village industries
(4) All of the above
(5) None of the above

33. The central co-operative banks are in direct touch with
(1) farmers
(2) state co-operative banks
(3) land development banks
(4) Central Government
(5) None of the above

34. A scheduled bank is one
(1) which conforms to the requirements of Schedule III of the Banking Regulation Act, 1949
(2) which has been declared as a scheduled bank by the Government of India
(3) which has deposits exceeding ₹ 10 crore
(4) which has its name added to the second schedule of the Reserve Bank of India Act, 1934
(5) None of the above

35. A non-banking financial company which carries on the business of acquisition of shares and securities and satisfies certain conditions, is called
(1) investment company
(2) financial company
(3) non-bank finance company
(4) core investment company
(5) None of the above

36. When failure of the financial system affects other systems such as insurance market or forex market, such risk is
(1) liquidity risk
(2) settlement risk
(3) systemic risk
(4) clearing process risk
(5) None of the above

37. In the State of India, the State Financial Corporation have given assistance mainly to develop
(1) agricultural farms
(2) cottage industry
(3) large-scale industries
(4) medium and small-scale industries
(5) None of the above

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1. (1)	2. (1)	3. (2)	4. (3)	5. (2)	6. (4)	7. (4)	8. (1)	9. (3)	10. (1)
11. (1)	12. (4)	13. (2)	14. (2)	15. (1)	16. (3)	17. (1)	18. (3)	19. (1)	20. (3)
21. (5)	22. (2)	23. (4)	24. (3)	25. (4)	26. (1)	27. (4)	28. (3)	29. (4)	30. (4)
31. (4)	32. (4)	33. (2)	34. (4)	35. (4)	36. (3)	37. (4)			

Chapter

6

Money and Money Market

Money

It is any object or record that is generally accepted as payment for goods and services and repayment of debts in a given socio-economic context of country. Any kind of object or secure variable record that fulfills these functions can be considered as money.

Credit Money

Any future monetary claim against an individual that can be used to buy goods and services.

Legal Money

It is a type of payment that can lawfully be used to meet financial obligations. Money, as legal tender, is a commodity or asset or an officially issued currency or coin that can be legally exchanged for something of equal value such as a good or service, or that can be used in payment of a debt.

Adjacent Money

It is not exact money, but near to money. Because it's nature of liquidity is more in comparison to others like bond, government debenture etc.

Different Types of Money

Now, we will discuss the different types of money. Broadly speaking, there exist three main types (forms) of money in a modern economy : metallic money, paper money and credit money. Economists, however, further classify money into many other forms.

The important types of money are explained below

1. Metallic Money

Money made-up of any metal is called *metallic money*. It refers to coins that are made-up of various metals like gold, silver, nickel, copper etc. The right of minting coins, is the monopoly of the state.

Metallic money is further classified into

- **Standard Money** Standard money or full bodied money is that money whose face value (value as money) is equal to the intrinsic value (value as commodity). Standard money/coins are generally made up of gold and silver.
- **Token Money** Token money is that money whose face value (value as money) is greater than its intrinsic value (value as commodity). Token money/coins are generally made up of cheaper metals like copper, nickel etc (Indian ₹ 1 coin is token money).

2. Paper Money

Money made-up of paper is called **paper money**. Paper money consists of currency notes issued by the government or the Central Bank of a country.

Paper money is of following types

- **Representative Paper Money** The paper money which is fully backed by gold and silver reserves is called representative paper money.
- **Convertible Paper Money** It is that paper money which is convertible into standard coins.
- **Inconvertible Paper Money** It is that paper money which is not convertible into standard coins or valuable metals.
- **Fiat Money** Paper money which circulates on the authority (*i.e.*, fiat) of the government is fiat money. Fiat money is created and issued by the state. It is only a variety of inconvertible paper money.

3. Acceptable Money

On the basis of general acceptability, money can be categorised into legal tender money and non-legal tender money (optional money).

(a) **Legal Tender Money** It refers to that money which the state and the people accept as the means of payment in discharge of debts. Legal tender money is enforced by law. No one can refuse to accept it as a means of payment.

Legal tender money may be of two types

(i) Limited legal tender

(ii) Unlimited legal tender

Limited Legal Tender Money It is accepted only upto a certain limit. *e.g.*, in India, the small coins of 50 paise is legal tender money only upto a sum of ₹ 10.

Unlimited Legal Tender Money It is that money which has to be accepted as a medium of payment upto any amount. In India, 50 paise coins, ₹ 1 coins and currency notes of all denominations are unlimited legal tender money.

(b) **Non-Legal Tender Money** It is also known as **optional money**. It refers to that money which may or may not be accepted as a means of payment. Optional money has no legal sanction. No one can be forced to accept optional money. Different credit instruments like cheques, bankdrafts, bill of exchange, treasury bills, insurance policies, bonds etc are examples of optional money.

Functions of Money

The functions of money can be divided into three main categories

1. Primary Functions

Two primary functions of money are as follows

Medium of Exchange Money serves as a medium of exchange. It is used to make payments for goods and services. Different goods can be sold in terms of money and this money can be used to purchase other goods. So, it acts as a medium of exchange between the buyers and the sellers.

Measure of Value Money is used to measure the value. As we can measure weight in kg and distance in km. It acts as a standard of value. Goods and services are priced and valued in terms of money.

2. Secondary Functions

- Monetary and Fiscal Management
- Income and Consumption
- Deferred Payments/Future Payments
- Parameter of Market Structure

3. Contingent Functions

- Distribution of National Income
- Basis of Credit System
- Liquidity of Wealth
- Relative comparison of National Income

Measures of Money Supply in India

Money supply is the stock of liquid assets held by the public, which can be freely exchanged for goods and services. RBI calculates four concepts of money supply. These are known as measures of monetary aggregates or money stock measures.

M_1 = Currency with the public + Demand deposits with the banking system + Other deposits with the RBI
M_2 = M_1 + Saving deposits with post office savings of public
M_3 = M_1 + Time deposit of public with banking system
M_4 = M_3 + All deposits with post office saving banks (excluding national certificates)

RBI Working group on Money Supply headed by YV Reddy recommended for droping of post office saving deposits. Accordingly, there are now only 3 monetary aggregates, M_1, M_2 and M_3.

Liquidity Aggregates

L_1 = M_2 + All deposits with the post office savings banks (excluding national savings certificates)
L_2 = L_1 + Term deposits with term lending institutions and re-Financing Institutions (FIs) + Term borrowing by FIs + Certificates of deposit issued by FIs
L_3 = L_2 + Public deposits of non-banking financial companies

Devaluating Money

It is decided by the government issuing the currency and unlike depreciation, is not the result of non-governmental activities. One reason a country may devaluate its currency is, to combat trade imbalances. Devaluation causes a country's exports to become less expensive, making them more competitive on the global market. This in turn, means that imports are more expensive, making domestic consumers less likely to purchase them.

Value of Money

Money is a medium of exchange that facilitates trade in goods and services. Wherever people progressed beyond simple barter, they began to use their most marketable goods as medium of exchange. In primitive societies, they used cattle or measures of grain, salt, or fish. In early civilisations where the division of labour extended to larger areas, gold or silver emerged as the most marketable good and finally as the only medium of exchange, called money.

Monetary Standards

It refers to the commodity that fixes the value of the standard money used in a country.

Monetary standard, on the other hand, relates to the commodity by which the standard money unit is determined.

A sound monetary standard aims at the following

(i) Stability in the internal value of the currency through internal price stability.
(ii) Stability of the external value of the currency through exchange rate stability.

Monetary Standards in India

These are as follows

Gold Exchange Standard

In year 1898, Fowler Committee 1898 was appointed and on their recommendations, gold standard was established in India. At that time, 15 Indian rupee were rural to 1 British sovereign. Gold standard was there till 1914-15, as after First World War was ended.

Paper Currency in India

Reserve Bank of India was established in 1935 as Central Bank of India and controller of credit. British Government had given right of issuing of currency notes to Bank of Bengal, but from 1st April, 1935, the only rights of issuing currency was given to India.

Money Market

The cluster of financial institutions that deal in short-term securities and loans, gold and foreign exchange are termed as money market. Money has a time value and therefore, the use of it, is bought and sold against payment of interest. Short-term money is bought and sold in the money market and long-term money in the capital market.

Neither the money market nor the capital market exists in one physical location. The money market is a key component of the financial system, as it is the function of monetary operations conducted by the Central Bank in its pursuit of Monetary policy objectives. It is a market for short-term funds with maturity ranging from overnight to one year and includes financial instruments that are deemed to be close substitutes of money.

Functions of Money Market

The money market performs three broad functions which are as follows

1. It provides an equilibrating mechanism for demand and supply of short-term funds.
2. It enables borrowers and lenders of short-term funds to fulfill their borrowing and investment requirements at an efficient market clearing price.
3. It provides an avenue for Central Bank intervention in influencing both quantum and cost of liquidity in the financial system, thereby transmitting Monetary Policy impulses to the real economy.

Efficient functioning of the money market is important for the effectiveness of Monetary Policy. The Reserve Bank carries out regulation and development of money Market instruments such as call/notice/term money market, repo market, certificate of deposit commercial paper and Collateralised Borrowing and Lending Obligations (CBLO). The call/notice/term money market operations are transacted/reported on the Negotiated Dealing System Call (NDS Call) platform.

Important Terms

Money Market It refers to the market for short-term requirement and deployment of funds.

Call Money Money lent for 1 day.

Notice Money Money sent for a period exceeding 1 day.

Term Money Money lent for 15 days or more in inter-bank market.

Held Till Maturity Securities, which are not meant for sale and shall be kept till maturity.

Yield to Maturity Expected rate of return on an existing security purchased from the market.

Coupon Rate Specified interest rate on a fixed maturity, security fixed at the time of issue.

Treasury Operations Trading in government securities in the market. An investor bank can purchase these securities in the primary market. Trading takes place in the secondary market.

Types of Money Market

In Indian money market, Reserve Bank of India plays the central role, as it regulates and controls the money market.

Indian money market is mainly divided into two parts

1. Organised Sector

It comprises of all the public sector banks and foreign exchange banks except Reserve Bank of India.

2. Unorganised Sector

It comprises of domestic bankers moneylenders. They don't have been given any financial validity or certification by any financial institution. They are commonly found in underdeveloped areas.

Securities related to Money Market

Certificate of Deposit (CD)

A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination, CDs are generally issued by commercial banks and are insured by the Federal Deposit Insurance Corporation (FDIC). The term of a CD generally ranges from 1 month to 5 years.

Treasury Bill

These bills are money market instruments to finance the short-term requirements of the Government of India. These are discounted securities and thus are issued at a discount to face value. The return to the investor is the difference between the maturity value and issue price. The market that deals with treasury bills is called treasury bill market. Treasury bills are issued by the Central Government to secure short-term loans. These bills are sold by the Reserve Bank on behalf of the government. These are bought by the Reserve Bank, commercial banks, non-banking financial intermediaries. LIC, UTI and GIC. Treasury bills are most liquid, because Reserve Bank is always ready to buy and discount them.

Commercial Bill

This bill is a short-term, negotiable and self-liquidating instrument with low risk. It enhances the liability to make payment in a fixed date, when goods are bought on credit. The banks discount this bill by keeping a certain margin and credits the proceeds. Banks when in need of money, can also get such bills rediscounted by financial institutions such as LIC, UTI, GIC, ICICI and IRBI. The maturity period of the bills varies from 30 days, 60 days or 90 days, depending on the credit extended in the industry.

Soliciting Funds

Those funds which are used to meet temporary cash demands. They are repayable on demand and their maturity period ranges from 1 to 15 days.

Inflation

It is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. Inflation is the percentage change in the value of the Wholesale Price Index (WPI) on a year basis.

Formula for Calculating Inflation

(WPI in month of current year-WPI in same month of previous year) ....× 100

WPI in same month of previous year

Classification of Inflation

Inflation is classified on the basis of increase in price. In some countries, inflation occurs even in the state of peace while in some countries, inflation occur during the time of war.

Thus, inflation can be classified as follows

Creeping Inflation

This inflation is a slow inflation. In this type of inflation, price increases about at the rate of 2% per year, so, slow increase in price is not taken as bad.

Moderate Inflation

This can be differently defined around the world, given the different inflation histories. As an indication only, one could consider an inflation as moderate when it ranges from 5% to 25-30%. For some countries, the higher part of this range is already 'high inflation'.

Demand Pull Inflation

It is asserted to arise when aggregate demand in an economy outpaces aggregate supply. It involves inflation rising as real gross domestic product rises and unemployment falls.

Main causes of demand pull inflation are

- Quick increase in consumption and investment.
- Sudden increase in exports.
- A lot of government spending.
- Excessive monetary growth.

Cost Push Inflation

A phenomenon in which the general price levels rise (inflation) due to increases in the cost of wages and raw materials. Cost push inflation develops because the higher costs of production factors decreases in aggregate supply (the amount of total production) in the economy.

Galloping Inflation

When inflation rises to 10% or greater, it wreaks absolute havoc on the economy. Money loses value so fast that business and employee income can't keep up with costs and prices. Foreign investors avoid the country, depriving it of needed capital. The economy becomes unstable and government leaders lose credibility. Galloping inflation must be prevented.

Suppressed Inflation

Existing inflation disguised by government price controls or other interferences in the economy such as subsidies. Such suppression, nevertheless, can only be temporary because no governmental measure can completely contain accelerating inflation in the long-run. Also called repressed inflation.

Hyper Inflation

Hyper inflation is when the prices skyrocket more than 50% a month. It is fortunately very rare. Infact, most examples of hyper inflation have occurred when the government printed money recklessly to pay for war. Examples of hyper inflation include Germany in the 1920s, Zimbabwe in the 2000s and during the American Civil War.

Reasons of Inflation

Causes of inflation in India are

- Increase in public expenditure
- Deficit financing
- Erratic agricultural growth
- Agricultural price policy of government
- Upward revision of administered price
- Inadequate rise in industrial production

The main causes of inflation are either excess aggregate demand (economic growth too fast) or cost push factors (supply side factors).

Effects of Inflation

The impact of inflation in Indian economy decreases the purchasing power of dollar and increases the value of goods and commodities, especially those that comes from other country.

The effect of inflation on different sectors are given below

1. **Manufacturing Categories** Businessman, farmer, industrialist comes under this sector. Generally, they got benefit due to inflation because the cost of good increases in the period of inflation and opportunity of direct benefit increases.
2. **Investor Category** An investor is a person who allocates capital with the expectation of a financial return. The types of investments include gambling and speculation, equity, debt securities, real estate, currency, commodity, derivatives such as put and call options etc. The impact of inflation on your portfolio depends on the type of securities you hold. If you invest only in stocks, worrying about inflation shouldn't keep you up at night.

   Over the long-run, a company's revenue and earnings should increase at the same pace as inflation. The combination of a bad economy with an increase in costs is bad for stocks. Also, a company is in the same situation as a normal consumer - the more cash it carries, the more its purchasing power decreases with increase in inflation.
3. **Salaried Categories** Inflation usually hurts your buying power. That's because rising prices means you have to pay more for the same goods and services. Inflation can help you if you are the lucky recipient of income inflation. If your income increases at a slower rate than general inflation, your buying power declines even if you are making more.
4. **Consumer Categories** Inflation is not good for consumer. Because buying power decline and prices of goods increases. Consumer take minimum good comparison to previous time.
5. **Debtor and Creditor Categories** Benefit comes under debtor categories in the session of inflation in the compression of creditors . Reason is the value of money decreases and interest rate same like previous time.

Measures to Check Inflation

A variety of methods and policies have been proposed and used to control inflation

Monetary Measures

Governments and Central Banks primarily use Monetary Policy to control inflation. Central Banks increase the interest rate, slow or stop the growth of the money supply and reduce the money supply. Some banks have a symmetrical inflation target while others only control inflation when it rises above a target, whether express or implied. Most Central Banks are tasked with keeping their inter-bank lending rates at low levels, central bankers target a low inflation rate because they believe deflation endangers the economy.

Administrative Measures

The authority to take decisions on this front is this, front is the executive branch of the government.

Under this measure, they

- remove levy obligations in the respect of imported materials.
- ban export of constrained materials.
- maintain the central issue price, particularly for rice and wheat.
- suspend future trading.
- allot rice and wheat under open market sale scheme and many more.

Fiscal Measures

Measures taken by the government to control inflation are

Decrease in Public Expenditure One of the main reasons of inflation is excess public expenditure like building of roads, bridges etc. Government should drastically scale down its non-essential expenditure .

Delay in Payment of Old Debts Payment of old debts that fall should be postponed for sometime, so that people may not acquire extra purchasing power.

Increase in Taxes Government should levy some new direct taxes and raise rates of old taxes.

Over Valuation of Money To control the over valuation of money, it is essential to encourage imports and discourage exports.

Other Measures

Increase in the Production One of the major causes of the inflation is the excess of demand over supply, so those goods should be produced more whose prices are likely to rise rapidly. In order to increase production, public sector should be expanded and private sector should be given more incentives.

Proper Commercial Policy Those goods which are in scarcity should be imported as much as possible from other countries and their export should be discouraged.

Encouragement to Savings During inflation, government should come out with attractive saving schemes. It may issue 5 or 10 years bonds in order to attract savings.

Proper Investment Policy Investment in those industries should be increased wherein more production of goods can be generated over a short period of time. Less investment should be made in industries having long production period.

Marginal Requirement It is the difference between the value of security and loan advanced.

Tobin Tax

A means of taxing spot currency conversions that was originally suggested by American economist James Tobin (1918-2002). The Tobin tax was developed with the intention of penalising short-term currency speculation and to place a tax on all spot conversions of currency. Rather than a consumption tax paid by consumers, the Tobin tax was meant to apply to financial sector participants as a means of controlling the stability of a given country's currency.

Tobin Effect

It suggests that nominal interest rates would rise less than one-for-one with inflation because in response to inflation, the public would hold less in money balances and more in other assets, which would drive interest rates down. In other words, an increase in the exogenous growth rate of money increases the nominal interest rate and velocity of money, but decreases the real interest rate.

Effects of Inflation in Indian Economy

- Increase in price and good service.
- Decrease real income.
- Lower domestic saving rates.
- When inflation becomes very acute, hyper inflation may result.
- Development of banking and insurance sector.
- Moral degration of society.

Some other Concepts related to Inflation

These are as follows

Money Deflation

When the overall price level decreases so that inflation rate becomes negative, it is called deflation. It is the opposite of the often encountered inflation.

Monetary Reflation

A Fiscal or Monetary Policy, designed to expand a country's output and curb the effects of deflation. Reflation policies can include reducing taxes, changing the money supply and lowering interest rates. The term *reflation* is also used to describe the first phase of economic recovery after a period of contraction.

Stagflation

Stagflation, a portmanteau of *stagnation* and *inflation*, is a term used in economics to describe a situation where the inflation rate is high, the economic growth rate slows down and unemployment remains steadily high. It raises a dilemma for economic policy since actions designed to lower inflation may exacerbate unemployment, and *vice versa*.

Currency War

Currency war, also known as competitive devaluation. Currency war is a condition in international affairs where countries compete against each other to achieve a relatively low exchange rate for their own currency. As the price to buy a particular currency falls, so too does the real price of exports from the country. Imports become more expensive. So domestic industry and thus, employment receives a boost in demand from both domestic and foreign markets.

Calculation of Inflation in India

Inflation is usually measured based on certain indices. Broadly, there are two categories of indices for measuring inflation *i.e.*, wholesale prices and consumer prices.

Index

An index number is a single figure that shows how the whole set of related variables has changed over time or from one place to another.

Two types of index given below

1. **Wholesale Price Index** (WPI) It is the index that is used to measure the change in the average price level of goods traded in wholesale market. In India, a total of 435 commodities data on price level is tracked through WPI which is an indicator of movement in prices of commodities in all trade and transactions.
2. **Consumer Price Index** (CPI) It is a statistical time-series measure of a weighted average of prices of a specified set of goods and services purchased by consumers. It is a price index that tracks the prices of a specified basket of consumer goods and services, providing a measure of inflation. CPI is a fixed quantity price index and considered by some as a cost of living index.

   Under CPI, an index is scaled so that it is equal to 100 at a chosen point in time, so that all other values of the index are in percentage relative to this one. Till January 2012, in India there were only *following four CPIs compiled and released on national level*

They are

1. Industrial Workers (IW) (base 2001)
2. Agricultural Labourer (AL) (base 1986-87)
3. Rural Labourer (RL) (base 1986-87) and
4. Urban Non-Manual Employees (UNME) (base 1984-85)

House Price Index (HPI) An index that measures the price of residential housing (specifically single-family properties), which is polished quarterly by the Federal Housing Finance Agency (FHFA).

Service Price Index (SPI) An index that measure the fluctuation of service value. Indian Government want to launch this index soon.

Recession

It is a slow down or a massive contraction in economic activities. A significant fall in spending generally leads to a recession. Such a slow down in economic activities may last for some quarters, thereby completely hampering the growth of an economy. In such a situation, economic indicators such as GDP, corporate profits, employments etc fall.

This creates a mess in the entire economy. To tackle the menace, economies generally react by loosening their monetary policies by infusing more money into the system, *i.e.*, by increasing the money supply. This is done by reducing the interest rates. Increased spending by the government and decreased taxation are also considered good answers for this problem. The recession which hit the globe in 2008 is the most recent example of a recession.

Foreign Currency Crisis, 1991

The 1991 crisis triggered by balance of payment pressures, was due to a fiscal profligacy of the 1980s. In 1991, rupee was over valued by more than 20%.

Major characteristics of the crisis situation in 1991-92 were

- There was a serious fiscal crisis in which fiscal deficit reached the level of 6.6% of GDP. Internal debts rose to about 50% of GDP with interest payments draining about 39% of total revenue collections of the Central Government. GNP growth rate fell to 1.4% from the peak level of 10.5% in 1988-89.
- Negative growth rates agriculture promotion -2.8%, Foodgrain production- 5.3%, Industrial production -0.1%, Inflation rate based both on WPI and CPI soared high at 13-14%.
- Foreign trade shrunk imports falling by 19.4% and exports by 1.5%. Rupee depreciated by 26.7% *vis-a-vis* US dollars. Fall in foreign exchange reserves. Confidence of the international financial institutions was badly shaken. In May, 1991, the government had to lease 20 tonnes of gold out of its stock to the SBI to enable it to sell the gold with repurchase option after 6 months. In addition, RBI was allowed to pledge 47 tonnes of gold to the Bank of England to raise a loan of $ 600 mn.

Foreign Exchange Regulation Act (FERA)

It was passed in 1947 which was amended in 1973. The new FERA came into force from 1st January, 1974. The objective was the conservation of India's Foreign exchange reserves, judicious use of foreign exchange, using mainly in these sector which require foreign technology.

Foreign Exchange Management Act (FEMA)

FERA was repealed in 1998 and Foreign Exchange Management Act (FEMA) was enacted. No unauthorised person would be allowed to deal in foreign exchange. The authorised person could sell; draw foreign exchange from any authorised person on current account transaction, subject to approval of RBI. RBI has exclusive authority to regulate supply; use of foreign exchange, RBI, if thinks fit at the compelling situation can prohibit use of foreign exchange for any specific purpose.

Difference between FERA and FEMA

FERA	FEMA
FERA was passed in 1947 which was ammended in 1973.	FEMA came in place of FERA from 1998.
FERA deals with foreign exchange regulation.	FEMA deals with exchange management.
In case of FERA, RBI's permission is required.	Except dealing in foreign exchanges, no permission is required from RBI.
FERA was old and not upto the current economic situational requirement.	FEMA came out a time when India's foreign exchange position was satisfactory.
FERA gives wide power to enforcement directorate to arrest any person, seize any document.	FEMA violation will not bring any criminal proceedings. It is a civil offence.

Money Laundering

It is the generic term used to describe the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct, by making such proceeds appear to have derived from a legitimate source. The processes by which criminally derived property may be laundered are extensive.

Anti Money Laundering Act, 2002

It is Indian law passed in 2002 to prevent money laundering and to provide for confiscation of property derived from money laundering. The main objectives of this act are to prevent money laundering as well as to provide for confiscation of property either derived from or involved in money laundering.

Various Countries and their Currencies

Country	Currency
Afghanistan	Afghan Afghani
Algeria	Algirian dinar
Argentina	Argentine peso
Australia	Australian dollar
Austria	Euro
Bangladesh	Bangladeshi taka
Belarus	Belarusian rusle
Belgium	Euro
Bhutan	Ngultrum
Brazil	Brazilian real
Myanmar (Burma)	Burmese kyat
Canada	Canadian dollar
Chile	Chilean peso
China	Yuan
Cyprus	Euro
Denmark	Danish krone
Egypt	Egyption pound
Fiji	Fijian dollar
France	Euro
Germany	Euro
Hong Kong	Hong kong dollar
India	Indian rupee
Indonesia	Indonesian rupian
Iran	Iranian rial
Iraq	Iraqi dinar
Ireland	Euro
Israel	Israeli new shekel
Italy	Euro
Japan	Yen
Kazakhstan	Kazakhstani tenge
Libya	Libyian dinar
Malaysia	Malaysian rufiyaa
Maldives	Maldivian rufiyaa
Mauritius	Mauritian rupee
Mexico	Mexican peso
Nepal	Nepalese rupee
New Zealand	New Zealand dollar
Nigeria	Nigerian naira
Pakistan	Pakistani rupee
Philippines	Philippine peso
Qatar	Qatari riyal
Romania	Romanian len
Russia	Russian ruble
Saudi Arabia	Sandi riyal
Singapore	Singapore dollar
South Africa	South African rand
Sri Lanka	Sri Lankan rupee
Switzerland	Swiss franc
Taiwan	New Taiwan dollar
Thailand	Thai baht
Turkey	Turkish lira
Ukraine	Ukranian hryvnia
UAE	UAE
United Kingdom	British pound
USA	Dollar
Veitnam	Vietnamese dong
Zimbabwe	South African rand

Question Bank

1. Commercial paper can be issued

(1) by all corporates
(2) by all corporates with net worth of atleast ₹ 10 crore
(3) by all corporates with net worth of atleast ₹ 5 crore
(4) can be issued only by banks
(5) All of the above

2. Commercial bills market is a part of

(1) organised money market
(2) unorganised money market
(3) stock market
(4) capital market
(5) None of the above

3. Interest is usually paid on money market instruments

(1) at maturity (2) on request
(3) twice a year (4) annually
(5) All of these

4. If the monetary standard based on gold, it is called

(1) gold standard (2) silver standard
(3) double standard (4) multi standard
(5) None of these

5. The gold standard was broken down in the year

(1) 1936 (2) 1946
(3) 1956 (4) 1966
(5) 1970

6. Inflation can defined as

(1) a persistent rise in general price level
(2) a persistent fall in general price level
(3) an increase purchasing power
(4) increase in value of money
(5) decrease in money

7. Reason for cost push inflation is

(1) increase in wage rate
(2) increase in interest rate
(3) increase in the price of raw material
(4) increase in indirect tax
(5) decrease in cost of production

8. Which of the following is not a reason for demand pull inflation?

(1) Shortage of consumer goods
(2) More exports
(3) Economic growth
(4) Less import
(5) More exports and less imports

9. During inflation,

(1) exports becomes more expensive
(2) exports becomes more cheap
(3) imports becomes more expensive
(4) surplus balance of payment
(5) All of the above

10. Which of the following can be identified as a demat account?

(1) Accounts which can have zero balance
(2) Accounts opened to facilitate repayment of loan
(3) Accounts in which shares of companies are traded in electronic form
(4) Accounts maintained by mutual fund companies for investors
(5) None of the above

11. Suppose a waiter deposits his cash tips into his savings account. As a result of only this transaction,

(1) M2 increases (2) M1 decreases
(3) M2 decreases (4) M3 increases
(5) Both 1 and 2

12. Deflation depresses aggregate demand because of

(1) the wealth effect
(2) the expectations effect
(3) the income effect
(4) the consumption effect
(5) All of the above

13. Government securities with terms of more than 1 year are called

(1) government bonds (2) treasury bills
(3) bills of exchange (4) capital bills
(5) None of the above

14. Money that a government has required to be accepted in settlement of debts is
    (1) barter money (2) commodity money
    (3) legal tender (4) currency value
    (5) None of these

15. M1
    (1) includes the most liquid forms of money
    (2) is the narrowest definition of the money supply
    (3) largely consists of transactions account balances
    (4) All of the above (5) None of the above

16. Transactions account balances are included in
    (1) only M1 (2) only M2
    (3) only M3 (4) All of these
    (5) None of these

17. Currency in circulation is included in
    (1) only M1 (2) only M2
    (3) only M3 (4) All of these
    (5) None of these

18. Savings accounts are included in
    (1) M1, M2, and M3 (2) M1 but not M2
    (3) M2 but not M3 (4) M2 and M3
    (5) M1 and M3

19. Which of the following is not a money market instrument ?
    (1) Treasury Bills (2) Commercial Paper
    (3) Certificate of Deposit
    (4) Equity Share (5) None of these

20. Which of the following cannot issue a Commercial Paper?
    (1) Companies (2) Primary Dealers
    (3) Commercial Banks
    (4) All Indian Financial Institution
    (5) None of these

21. Maximum period for which a commercial paper can be issued is
    (1) 3 months (2) 6 months
    (3) 1 year (4) 2 years
    (5) None of these

22. Treasury Bills means
    (1) salary bills drawn by Government officials on the treasury
    (2) bills drawee by the Government contractors and other suppliers on the treasury for the dues owed to them by the Government
    (3) obligation of the Government of India issued by the Reserve Bank of India and payable normally 91 days after issue
    (4) a mode of drawings by the Treasury Office on the Reserve Bank of India
    (5) None of the above

23. Which one of the following is the major component of the money supply in the Indian Economy?
    (1) Currency component
    (2) Deposit component
    (3) Treasury bill with public
    (4) Both 1 and 2
    (5) Both 2 and 3

24. According to the norms prescribed by RBI for setting up of white label ATMs, what is the minimum net worth the NBFCs should have?
    (1) ₹ 50 crore
    (2) ₹ 75 crore
    (3) ₹ 100 crore
    (4) ₹ 200 crore
    (5) ₹ 150 crore

25. Money laundering normally involved
    (1) placement of funds
    (2) layering of funds
    (3) integrating of fund
    (4) All of the above
    (5) None of the above

26. When a nation's money supply persistently increase at a faster rate than the nation can increase its output of goods and services, which of the following happens?
    (1) Budget deficits increase
    (2) Inflation occurs
    (3) Real output accelerates
    (4) Living standards rise

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1. (3) 2. (1) 3. (1) 4. (1) 5. (1) 6. (1) 7. (3) 8. (1) 9. (1) 10. (3)
11. (2) 12. (2) 13. (1) 14. (3) 15. (4) 16. (4) 17. (4) 18. (4) 19. (4) 20. (3)
21. (3) 22. (3) 23. (4) 24. (3) 25. (4) 26. (2)

Chapter

7

Capital Market in India

Meaning and Work of Capital Market

Capital market is one of the most important segments of the Indian financial system. It is the market available to the companies for meeting their requirements of the long-term funds. It refers to all the facilities and the institutional arrangements for borrowing and lending funds. In other words, it is concerned with the raising of money capital for purposes of making long-term investments.

The market consists of a number of individuals and institutions (including the government) that canalise the supply and demand for long-term capital and claims on it. The demand for long-term capital comes predominantly from private sector manufacturing industries, agriculture sector, trade and the government agencies, while the supply of funds for the capital market comes largely from individual and corporate savings, banks, insurance companies, specialised financing agencies and the surplus of governments.

The Indian capital market is broadly divided into the following

- Gilt-edged market
- The Industrial Securities Market

Components of Indian Financial Market

These are as follows

Money Market It is used by a wide array of participants from a company raising money by selling commercial paper into the market to an investor purchasing CDs as a safe place to park money in the short-term.

Capital Market Markets for buying and selling equity and debt instruments. Capital markets channel savings and investment between suppliers of capital such as retail investors and institutional investors and users of capital like businesses, government and individuals.

Commodity Market It is a market that trades in primary rather than manufactured products. Soft commodities are agricultural products such as wheat, coffee, cocoa and sugar. Hard commodities are mined such as gold, rubber and oil.

Derivatives Market It is the financial market for derivatives, financial instruments like future contracts or options, which are derived from other forms of assets.

Insurance Market The equitable transfer of the risk of a loss from one entity to another, in exchange for payment in insurance market. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss.

Foreign Exchange Market The Foreign Exchange Market (Forex, FX or currency market) is a global decentralised market for the trading of currencies. The main participants in this market are the larger international banks.

Securities Exchange Board of India (SEBI)

It is the regulatory authority established under the SEBI Act, 1992 in order to protect the interests of the investors in securities as well as promote the development of the capital market. It involves regulating the business in stock exchanges supervising the working of stock brokers, share transfer agents, merchant bankers, underwriters etc as well as prohibiting unfair trade practices in the securities market.

The main functions of SEBI are as follows

1. To regulate the business of the stock market and other securities market.
2. To promote and regulate the self-regulatory organisations.
3. To prohibit fraudulent and unfair trade practices in securities market.
4. To promote awareness among investors and training of intermediaries about safety of market.
5. To prohibit insider trading in securities market.
6. To regulate huge acquisition of shares and take over of companies.

SEBI's Guidelines in 1999

The SEBI, had issued guidelines in 1999 (referred to as ESOP Guidelines) to provide a regulatory framework for the listed companies to implement security based compensation schemes.

Indian Capital Market

The capital market in India is a market for securities, where companies and government can raise long-term funds. It is a market designed for the selling and buying of stocks and bonds.

Chronology of the Indian Capital Market

1830 Trading of corporate shares and stocks in bank and cotton presses in Bombay.

1850 Sharp increase in the capital market brokers owing to the rapid development of commercial enterprise.

1860-61 Outbreak of the American Civil War and 'Share Mania' in India.

1894 Formation of the Hamada shares and Stock Brokers Association.

1908 Formation of the Calcutta Stock Exchange Association

Indian or Industrial Securities Market

This market refers to the market which deals in equities and debentures of the corporates.

It is further divided into two parts

1. Primary Market

Primary market (new issues market) deals with 'new securities', *i.e.*, securities which were not previously available and are offered to the investing public for the first time. It is the market for raising fresh capital in the form of shares and debentures. It provides the issuing company with additional funds for starting a new enterprise or for either expansion or diversification of an existing one and thus, its contribution to company financing is direct. The new offerings by the companies are made either as an Initial Public Offering (IPO) or rights issue.

2. Secondary Market

Secondary market/Stock market (old issues market or stock exchange) is the market for buying and selling securities of the existing companies. Under this, securities are traded after being initially offered to the public in the primary market and/or listed on the stock exchange. The stock exchanges are the exclusive centres for trading of securities. It is a sensitive barometer and reflects the trends in the economy through fluctuations in the prices of various securities.

Security market is an economic institute within which takes place the sale and purchase transactions of securities between subjects of the economy on the basis of demand and supply. Also, we can say that securities market is a system of interconnection between all participants (professional and non-professional).

It provides effective conditions

- To buy and sell securities and also to attract new capital by means of issuance new security (securitisation of debt).
- To transfer real asset into financial asset.
- To invest money for short or long-term periods with the aim of deriving profitability.
- Commercial function (to derive profit from operation on this market).
- Price determination (demand and supply balancing, the continuous process of prices movements guarantees to state correct price for each security, so the market corrects mispriced securities).
- Informative function (market provides all participants with market information about participants and traded instruments).
- Regulation function (securities market creates the rules of trade, contention regulation, priorities determination).

Difference between Money Markets and Capital Markets

	Money Markets	Capital Markets
Duration	It is for short-term funds (1 year or less).	It is for long-term funds (more than 1 year).
Nature of Funds	Supplies funds for working capital requirements.	Supplies funds for fixed capital requirement.
Instruments	Instruments are T-bill, commercial papers, certificates of deposit etc.	Instruments are shares, debentures, bonds etc.
Amount of Instrument	Each single instrument is of large amount.	Each single instrument is of small amount.
Institutions	Central Banks, commercial banks, acceptance houses, non-banking financial institutions, bill brokers etc.	Stock exchanges, Commercial Banks and non-banking institutions such as insurance companies, mortgage banks, building societies etc.
Risk	Less due to smaller maturity. In short-term, probability of default is less.	Risk is higher.
Transactions	Transactions are on over phone and no formal place.	Transactions are at formal place. e.g., stock market.
Broker	Transaction without the help of broker.	Transaction have to be conducted with the help of broker.
Basic Role	Liquidity adjustment.	Putting capital to work, preferably to long-term secure and productive employment.
Relation with Central Bank	Closely and directly linked with Central Bank of the country.	The capital market feels Central Bank's influence, but mainly indirectly and through the money market.
Market Regulation	Commercial banks are closely regulated.	The institutions are not much regulated.

Major Capital Markets

Bond Market

It is defined as the environment in which the issuance and trading of debt securities occurs. The bond market primarily includes government issued securities and corporate debt securities and facilitates the transfer of capital from servers to the issuers or organisations requiring capital for government projects, business expansions and ongoing operations.

Types of Bond Markets

The Securities Industry and Financial Markets Association (SIFMA) classified the broad bond market into five specified bond markets.

They are

- Corporate
- Municipal
- Fund
- Government and agency
- Mortgage backed

Bond Market Participants

These participants are similar to participants in most financial markets as follows

- Institutional investors
- Governments
- Individuals
- Traders

Stock Market

An equity market or stock market is the aggregation of buyers and sellers (a loose network of economic transactions, not a physical facility or discrete entity) of stocks (share), these are securities listed on stock exchange as well as those only traded privately.

Initial Public Offering (IPO)

Initial Public Offering (IPO) or Stock Market Launch is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange for the first time. Through this process, a private company transforms into a public company.

Share Market

A share is one unit into which the total share capital is divided. Share capital of the company can be explained as a fund or sum with which a company is formed to carry on the business and which is raised by the issue of shares.

Shares are the marketable instruments issued by the companies in order to raise the required capital.

These are very popular investments which are traded everyday in the stock market and the value of the share at the end of the day decides the value of the firm.

D-Mat Account

In India, shares and securities are held electronically in a Dematerialised account (D-Mat account) instead of the investor taking physical possession of certificates. A Dematerialised account is opened by the investor while registering with an investment broker (or sub-broker). The Dematerialised account number is quoted for all transactions to enable electronic settlements of trades to take place. Every shareholder will have a Dematerialised account for the purpose of transacting shares.

Types of Shares

The shares which are issued by companies are of two types

Equity Shares These shares are issued and are traded everyday in the stock market. Equity shareholders only get dividend after preference shareholders and debenture holders. The returns on the equity shares are not at all fixed.

It depends on the amount of profits made by the company. The Board of Directors decides on how much of the dividends will be given to equity shareholders. Shareholders can accept to it or reject the offer during the annual general meeting. Equity shareholders have the right to vote on any resolution placed before the company.

Preference Shares These are other type of shares. The preference shares are market instrument issued by the companies to raise the capital. Preference shares have the characteristics of both equity shares and debentures.

Fixed rate of dividends are paid to the preference shareholder as in case of debentures, irrespective of the profits earned company is liable to pay interest to preference shareholders.

Types of Preference Shares

Preference shares are divided into four parts

1. Cumulative and non-cumulative shares
2. Redeemable and non-redeemable shares
3. Convertible and non-convertible shares
4. Participating and non-participating shares

Differences between Equity Shares and Preference Shares

Equity Shares	Preference Shares
Nominal value is lower.	Nominal value is higher.
Dividend varies according to profit.	Rate dividend is fixed.
No right for arrears of dividend.	Cumulative preference shares get arrears.
No priority in dividend and repayment of capital.	Priority in dividend and repayment of capital.
Cannot be redeemed.	Can be redeemed.
There is more risk.	The risk is lower.
Wider voting right.	Limited voting right.
Control over management.	No control over management.
Highly speculative.	Less speculative.
Ready to take risk and to get greater dividend prefer this.	Not ready to take risk and expect steady income prefer this.

Debentures

Debentures are creditorship securities representing long-term indebtedness of a company. A debenture is an instrument executed by the company under its common seal acknowledging indebtedness to some person or persons to secure the sum in advanced. It is thus, a security issued by a company against the debt.

Debentures, like shares are equal parts of loan raised by a company. Debentures are usually secured by the company by a fixed or floating debentures at periodical intervals, generally 6 months and the company agrees to pay the principal amount at the expiry of the stipulated period according to their terms of issue. Like shares, they are issued to the public at part, at a premium or at a discount.

Debenture holders are creditors of the company. They have no voting rights, but their claims rank prior to preference shareholders and equity shareholders. Their exact rights depend upon the nature of debentures they hold.

Advantages of Debentures

It involves less cost to the firm than the equity financing because

- investors consider debentures as a relatively less risky investment alternative and therefore, require a lower rate of return.
- interest payments are tax deductible.
- the floatation costs on debentures is usually lower than floatation costs on common shares.
- debenture holders do not have voting rights and therefore, debenture issue does not cause dilution of ownership.
- debenture holders do not participate in extraordinary earnings of the company. Thus, their payments are limited to interest.
- during periods of high inflation, debenture issue benefits the company. Its obligations of paying interest and principal, which remain fixed, decline in real terms.

Types of Debentures

The major types of debentures are as follows

On the Basis of Record Point of View

Registered Debentures These are the debentures that are registered with the company. The amount of such debentures is payable only to those debenture holders, whose name appears in the register of the company.

Bearer Debentures These are the debentures which are not recorded in a register of the company. Such debentures are transferable merely by delivery. Holder of bearer debentures is entitled to get the interest.

On the Basis of Security

Secured or Mortgage Debentures These are the debentures that are secured by a charge on the assets of the company. These are also called mortgage debentures. The holders of secured debentures have the right to recover their principal amount with the unpaid amount of interest on such debentures out of the assets mortgaged by the company.

Unsecured Debentures Debentures which do not carry any security with regard to the principal amount or unpaid interest are unsecured debentures. These are also called simple debentures.

On the Basis of Redemption

Redeemable Debentures These are the debentures which are issued for a fixed period. The principal amount of such debentures is paid off to the holders on the expiry of such period. These debentures can be redeemed by annual drawings or by purchasing from the open market.

Non-Redeemable Debentures These are the debentures which are not redeemed in the life time of the company. Such debentures are paid back only when the comapny goes to liquidation.

On the Basis of Convertibility

Convertible Debentures These are the debentures that can be converted into shares of the company on the expiry of pre-decided period. The terms and conditions of conversion are generally announced at the time of issue of debentures.

Non-Convertible Debentures The holders of such debentures cannot convert their debentures into the shares of the company.

On the Basis of Priority

First Debentures These debentures are redeemed before other debentures.

Second Debentures These debentures are redeemed after the redemption of first debentures.

Stock Exchanges in India

Bombay Stock Exchange (BSE), the oldest stock exchange in Asia, was established in 1875. It is synonomous with Dalal Street.

BSE was corporatised and renamed BSE Limited in 2005. In 1894, the Ahmedabad Stock Exchange was started to facilitate dealing in the shares of textile mills.

In 1908, Calcutta Stock Exchange was started to facilitate market for shares of plantations and jute mills. At present, there are 21 stock exchanges in the country. Two types of transaction take place on stock exchanges.

These are as follows

Investment Transaction

Sale/Purchase of securities undertaken with the long-term prospect relating to their yield and price.

Speculative Transaction

Sale/Purchase of securities undertaken with short-term gain from differences in yield and price. In this, delivery of securities or the payment of full price is rare.

Speculative transaction are of different types

Spot Transaction It involves delivery of and payment for securities on the same day.

Cash Transaction These are ready delivery transaction, wherein delivery of and payment for securities is completed within a period of 1 to 7 days.

Forward Transaction It involves delivery of and payment for securities will be made on certain fixed settlement days, coming once in 15 or 30 days. On the recommendation of the **Narasimham Committee**, SEBI was given the power to control and regulate the new issues market as well as stock exchange through Amendment of the Capital Issues Control Act, 1947.

List of Approved Stock Exchanges in India

Approved stock exchanges in India are as follows

- UP Stock Exchange, Kanpur
- Vadodra Stock Exchange, Vadodara
- Coimbatore Stock Exchange, Coimbatore
- United Stock Exchange of India Limited
- Bombay Stock Exchange, Mumbai
- Over The Counter Exchange of India, Mumbai
- National Stock Exchange, Mumbai
- Ahmedabad Stock Exchange, Ahmedabad
- Bangalore Stock Exchange, Bengaluru
- Bhubaneshwar Stock Exchange, Bhubaneshwar
- Calcutta Stock Exchange, Kolkata
- Cochin Stock Exchange, Cochin
- Delhi Stock Exchange, Delhi
- Guwahati Stock Exchange, Guwahati

- Hyderabad Stock Exchange, Hyderabad
- Jaipur Stock Exchange, Jaipur
- Ludhiana Stock Exchange, Ludhiana
- Chennai Stock Exchange, Chennai
- Madhya Pradesh Stock Exchange, Indore
- Pune Stock Exchange, Pune
- Interconnected Stock Exchange of India Limited

National Stock Exchange (NSE)

NSE was promoted by leading financial institutions at the behest of the Government of India and was incorporated in November, 1992 as a tax-paying company unlike other stock exchanges in the country.

On the basis of the recommendations of high powered **Pherwani Committee**, the National Stock Exchange was incorporated in November, 1992.

Trading at NSE can be classified under two broad categories

1. Wholesale debt categories
2. Capital market

Wholesale debt market operations are similar to money market operations, where institutions and corporate bodies enter into high value transactions in financial instruments such as government securities, treasury bills, public sector unit bonds, commercial paper, certificate of deposit etc.

Indices of NSE

- S and P CNX Nifty
  (NSE - 50, renamed on July, 1998)
- CNX Nifty Junior
- CNX 100
- S and P CNX 500 (Crisil 500 renamed on July, 1998)
- CNX Midcap
- Nifty Midcap 50
- S and P CNX Defty
- S and P CNX Nifty Dividend
- India VIX

Bombay Stock Exchange (BSE)

It was established in 1875, BSE Limited (formerly known as Bombay Stock Exchange Limited), is Asia's first stock exchange and one of India's leading exchange groups. Over the past 137 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital raising platform.

Indices of BSE

- Sensex
- SMLCAP
- BSE-200
- Midcap
- BSE-100
- BSE-500

- Around 5000 companies are listed on BSE, making it world's No. 1 exchange in terms of listed members. BSE Limited is world's 5th most active exchange in terms of number of transactions handled through its electronic trading system. It is also one of the world's leading exchange (5th largest in May, 2012) for index options trading (Source-World Federation of Exchanges).
- BSE is the first exchange in India and second in the world to obtain an ISO 9001:2000 certification.
- It is also the first exchange in the country and second in the world to receive Information Security Management System Standard BS 7799-2-2002 certification for its On-Line Trading System (BOLT).
- BSE's popular equity index, the sensex is India's most widely tracked stock market benchmark index. It is traded internationally on the Eurex as well as leading exchanges of the BRCS nations (Brazil, Russia, China and South Africa).
- The Bombay Stock Exchange launched BSE Carbonex, the first carbon based thematic index in the country, which takes a strategic view of organisational commitment to climate change mitigation. This index has been launched with the aim of creating a benchmark and increasing awareness about the risks posed by climate change.
- It will enable investors to track performance of the constituent companies of BSE-100 index regarding their commitment to greenhouse gases emission reduction.

Over the Counter Exchange of India (OTCEI)

Traditionally, trading in stock exchanges in India followed a conventional style, where people used to gather at the exchange offices and bids and offers were made by open outcry. This old-age trading mechanism in the Indian stock markets used to create many functional in efficiencies.

Lack of liquidity and transparency, long settlement periods and ben ami transactions are a few examples that adversely affected investors. In order to overcome these inefficiencies, OTCEI was incorporated in 1990, under the Companies Act, 1956.

OTCEI is the first screen based nationwide stock exchange in India created by Unit Trust of India (UTI), Industrial Credit and Investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI), SBI capital markets, Industrial Finance Corporation of India (IFCI), General Insurance Corporation (GIC) and its subsidiaries and bank financial services.

Residex

Keeping in view, the prominence of housing and real estate as a major area for creation of both physical and financial assets and its contribution in overall national wealth, a need was felt for setting up of a mechanism which could track the movement of prices in the residential housing segment. Regular monitoring of the house prices can be useful inputs for the different interest groups.

MCX Stock Exchange (MCX-SX)

It is a private stock exchange headquartered in Mumbai, which was founded in 2008. Now, it is a MCX-SX full-fledged stock exchange. Securities and Exchange Board of India (SEBI) on 10th July, 2012 granted permission to MCX Stock Exchange (MCX-SX) to operate as full-fledged stock exchange. MCX-SX would be able to offer additional asset classes such as equity and equity F and O (Futures and Options) interest rate futures and wholesale debt segments. SEBI has not allowed the exchange to operate in segments other than currency derivatives. This move of SEBI will bring more competition in the market.

Commodity Exchange

- Multi Commodity Exchange of India Limited (MCX)
- National Commodity and Derivatives Exchange Limited (NCDEX)
- Indian National Multi-Commodity Exchange (NMCE)
- Commodity Exchange Limited ICEX
- MCX Stock Exchange (MCX-SX)

Stock Indexes List of Major Stock Exchanges

Amsterdam Stock Exchange Index	Aex
Argentina Stock Exchange Index	Merval
Brazilian Stock Exchange Index	Bovespa
Canada Stock Exchange Index	Tsx
China Stock Market Index	Shanghai
Deutch Stock Market Index	Dax
French Stock Market Index	CAC 40
Hong Kong Stock Market Index	Hang Seng
Indian Bombay Stock Exchange Index	Sensex
Indian National Stock Exchange Index	Nifty
Jakarta Stock Exchange Index	Jakarta
Japan Stock Market Index	Nikkei
London Stock Exchange Index	FTSE 100
Mexican Stock Exchange Index	IPC
New Zealand Stock Exchange	Index NZX 50
Singapore Stock Market Index	STRAITS
Taiwan Stock Exchange Index	TSEC
United States Stock Market Index	DOW
United States Stock Market Index	NASDAQ
United States Stock Market Index	S&P 500

Reference Rates : MIBID, MIBOR

- A reference rate is an accurate measure of the market price. In the fixed income market, it is an interest rate that the market respects and closely watches. It plays a useful role in a variety of situations.
- NSE had developed MIBID (Mumbai Inter-Bank Bid Rate) and MIBOR(Mumbai Inter-Bank Offer Rate) for the overnight market. This was launched sometime in 1998. They are the reference rates, then NSE launched the 14 days MIBID/MIBOR and then the 1 month and the 3 months MIBOR and MIBID. Thus, all the 4 categories of MIBOR and MIBID are now available.
- It is the simple average of the quotes by the various participants in the market banks, PDs, institutions polled on a daily basis.
- **LIBOR** (London Inter-Bank Offered Rate) It is the average of interest rates provided by leading banks in London that they would be charged if borrowing from other banks. It is used as a global benchmark interest rate by many banks around the world.

International Cultivar Registration Authorities (ICRA)

It is an Indian independent and professional investment information and credit rating agency. It was established in 1991 and was originally named Investment Information and Credit Rating Agency of India Limited (IICRA, India). It is second largest Indian rating company in terms of customer base.

It was a joint-venture between Moody's and various Indian commercial banks and financial services companies. The company changed its name to ICRA Limited and went public on 13th April, 1997 with a listing on the Bombay Stock Exchange and the National Stock Exchange.

Credit Rating Agency

It is a company that assigns credit ratings to institutions that issue debt obligations *i.e.*, assets backed by receivables on loans, such as **mortgage backed securities.** These institutions can be companies, cities, non-profit organisations or national governments and the securities they issue can be traded on a secondary market. At present, there are four credit rating agencies in the country.

They are

- Credit Rating Information Services of India (CRISIL)
- Investment information and Credit Rating Agencies of India (CRAI)
- Credit Analysis and Research (CART)
- Duff Falps Credit Rating India Private Limited (DCR India)
- Cruist is the first credit rating agency of the country started in its functionary, since 1988.

Moody's Rating

AAA shows that the bond possess least investment risk.

AA shows high grade words.

BAA shows mid grade bonds, neither low grade nor high grade safely.

BA shows bords covered with speculative bords.

Credit Rating Information Services of India Limited (CRISIL)

It is a global analytical company providing ratings, research, risk and policy advisory services.

CRISIL's majority shareholder is Standard and Poor's, a division of McGraw Hill financial and provider of financial market intelligence.

CRISIL's businesses can be divided into three broad categories : Ratings, Research and Advisory. CRISIL ratings has rated/assessed over 61000 entities in India. Its rating capabilities span the entire range of debt instruments and it has worked across the corporate strata, from large corporates in the country to the SMEs.

Future Trading of Foreign Currency

It is exchange where people can trade standardised future contract. That is a contract to buy specific quantities of a commodity at specified price with delivery set at a specified time in future.

Today, India has four national commodity exchange, namely

1. Multi Commodity Exchange (MCX)
2. National Commodity and Derivative Exchange (NCDEX)
3. National Multi Commodity Exchange (NMCE)
4. India Commodity Exchange (ICE)

Apart from this, India has (ICE) regional exchanges. All these commodity exchange are overseen by Forward Market Commission (FMC), which was set-up in 1953.

Insurance

Insurance industry includes two sectors : Life insurance and General insurance. Life insurance in India was introduced by Britishers. A British firm in 1818, established the Oriental Life Insurance Company at Calcutta, now Kolkata. Since the opening up, the number of participants in the insurance industry has gone up from 7 insurers (including LIC, four public sector general insurers, one specialised insurer and the GIC as the national re-insurer) in 2000 to 49 insurers as on 30th September, 2011.

Insurance Regulatory and Development Authority (IRDA)

This was established in the year 1999 by the Indian Government, for two significant reasons to safeguard the interest of the policy holders and for the upgradation of the entire insurance sector, right from the approach adopted by the existing insurance companies towards their shareholders to the eradication of the shortcomings of the industry. The organisation was set-up under the guidelines of the Insurance Regulatory and Development Authority Act, 1999.

Scope of Insurance Regulatory and Development Authority

IRDA has been authorised to register the new insurance companies in India. The list of new insurance companies also includes the collaborations of the renowned insurance companies overseas with the existing Indian companies.

The insurance companies in India are required to approach the Insurance Regulatory and Development Authority for the purpose of renewal of the registration. The Insurance Regulatory and Development Authority is allowed to withdraw registration of the companies and even cancel the registration of a company if required. It is also authorised to modify the registration procedure for a company.

Functions of Insurance Regulatory and Development Authority

IRDA ensures and safeguards the interests of policy holders through various ways such as

- nomination by policy holders.
- settlement of insurance claim.
- practical training for insurance agents and other intermediaries.
- insurable interest.
- surrender value of policy holders.
- code of conduct of insurance intermediaries.
- guaranteed success package General Studies paper.
- assistance in gaining correct information about policies.
- creation of management information system.
- promotion of self-regulation within the insurance sector.

Life Insurance Corporation of India (LIC)

LIC was established on 1st September, 1956 which set the pace of nationalisation of the insurance sector under the stewardship of CD Deshmukh. It has head office at Mumbai and 8 zonal offices, the most recent being at Patna. LIC is also operating internationally through branch offices in Fiji, Mauritius and UK and through joint venture insurance companies in Bahrain, Nepal, Sri Lanka, Kenya and Saudi Arabia.

General Insurance Corporation (GIC)

GIC was established on 1st January, 1973 with its four subsidiaries, viz,

1. National Insurance Company Limited, Kolkata
2. The New India Insurance Company Limited, Mumbai
3. The Oriental Fire and General Insurance Company Limited, New Delhi
4. United India General Insurance Company Limited, Chennai

GIC Reinsurer (Re) has branch offices in Dubai and London and a representative office in Moscow.

General Insurance Corporation of India

The entire general insurance business in India was nationalised by General Insurance Business Nationalisation Act, 1972 (GIBNA). The Government of India (GoI), through nationalisation took over the shares of 55 Indian insurance companies and the undertakings of 52 insurers carrying on general insurance business.

Insurance and Bankings

The insurance companies in India are constantly collaborating with the banking institutions on the pattern of foreign countries to impart more efficiency in the entire venture insurance sector.

More and more insurance companies are signing MoUs with the Indian banks in order to carry on their marketing activities through the branches of the banks, the prominent Indian banks that have already signed such MoUs include the Vysya Bank, the State Bank of India and the Jammu and Kashmir Bank.

In 2008, its wholly owned subsidiary was opened in Singapore. It also extends assistance for development of infrastructure facilities like housing, rural electrification, water supply, sewerage etc. In addition, it extends resource support to other 'financial institutions through subscription to their shares and bonds' etc. In making investments, the major consideration is the protection of the interests of policy holders and the aim is to secure the highest possible yield consistent with the safety of capital. It is the single largest investor in the country. It subscribes to and underwrites the shares, bonds and debentures of various financial corporations and companies and provides term loans.

Mutual Funds

It is a body corporate registered with SEBI (Securities Exchange Board of India) that pools money from individuals/corporate investors and invests the same in a variety of different financial instruments or securities such as equity shares, government securities, bonds, debentures etc. Mutual funds can thus be considered as financial intermediaries in the investment business that collect funds from the public and invest on behalf of the investors.

Mutual funds issue units to the investors. The appreciation of the portfolio or securities in which the mutual fund has invested the money leads to an appreciation in the value of the units held by investors. The investment objectives outlined by a mutual fund in its prospectus are binding on the Mutual Fund Scheme. The investment objectives specify the class of securities. A mutual fund can invest in various asset classes like equity, bonds, debentures,basics of financial markets.

Types of Mutual Fund

According to the time of closure, schemes are classified as follows

- Open-ended schemes
- Close-ended schemes

Open-ended Schemes These are allowed to issue and redeem units any time during the life of the scheme, but close-ended funds cannot issue new units except in case of bonus or rights issue. Therefore, unit capital of open-ended funds can fluctuate on daily basis (as new investors may purchase fresh units).

Close-ended Schemes New investors can join the scheme by directly applying to the mutual fund at applicable net asset value related prices in case of open-ended schemes, but not in case of close-ended schemes. In case of close-ended scheme new investors can buy the units only from secondary markets.

Mutual Funds in India

The first Indian mutual fund was set-up in 1963, when the Government of India created the Unit Trust of India (UTI). Until 1987, UTI enjoyed a monopoly in the Indian mutual fund market and sold a range of mutual funds through a network of financial intermediaries.

At the end of 1988, UTI had ₹ 6700 crore of assets under management, in 1993, with the creation of SEBI and better regulation, transparency and liberalisation of capital markets (which included the creation of the NSE and the NSDL), the private sector was allowed to enter the mutual fund industry.

Mutual Fund Regulations

The erstwhile Unit Trust of India (UTI) was set-up by the Reserve Bank of India in 1963 and functioned under its regulatory and administrative control in 1978, the Industrial Development Bank of India (IDBI) took over regulatory and administrative control of the UTI.

The Government of India enacted the Securities and Exchange Board of India Act, 1992 on 4th April, 1992 which created the Securities and Exchange Board of India (SEBI). SEBI issued a comprehensive set of regulations in 1993 and revised them again in 1996.

Net Asset Value (NAV)

It is the value of an entity's assets less the value of its liabilities, often in relation to open-end or mutual funds, since shares of such funds registered with the US Securities and Exchange Commission are redeemed at their net asset value. Net asset value may represent the value of the total equity or it may be divided by the number of shares outstanding held by investors and thereby, represent the net asset value per share.

Depository System

"A depository is a file or a set of files in which data is stored for the purpose of safe keeping or identity authentication", defined by **Germany Depository**.

In India, the **Depositories Act, 1996** defines a depository to mean "A company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under sub-Section (1A) of Section 12 of the Securities and Exchanges Board of India Act, 1992".

Depository System in India

A vibrant and efficient capital market, which ensures an orderly development and contains measures for protection of the investor's interest, is the most important parameter for evaluating health of any economy. The practice of physical trading imposed limits on trading volumes and hence, the speed with which new information was incorporated into prices system. Presently, there are two depositories working in India.

National Securities Depository Limited (NSDL) It was registered by the SEBI on 7th June, 1996 as India's first depository to facilitate trading and settlement of securities in the demat form. It is promoted by IDBI, UTI, NSE.

Central Depository Services (India) **Limited** (CSDL) It commenced its operations during February, 1999 and was promoted by Stock Exchange Mumbai in association with Bank of Baroda, Bank of India, SBI and HDFC Bank.

Types of Depository System

The two types are as follows

Securities Immobilisation System of Depository The placement of certificates or other documents of title evidencing ownership of financial instruments in a central securities depository to reduce the movement of physical securities in the market place and to facilitate book entry transfers. The next logical step after immobilisation is dematerialisation.

Securities Dematerialisation System of Depository Dematerialisation is the process by which a client can get physical certificates converted into electronic balances.

An investor intending to dematerialise its securities needs to have an account with a DP. The client has to deface and surrender the certificates registered in its name to the DP. After intimating NSDL electronically, the DP sends the securities to the concerned Issuer/ R&T agent.

Question Bank

1. What is an Indian depository receipt? [BOB 2008]
   - (1) A deposit account with a public sector bank
   - (2) A depository account with any of the depositories in India
   - (3) An instrument in the form of depository receipt created by an Indian depository against underlying equity shares of the issuing company
   - (4) An instrument in the form of deposit receipt issued by Indian depositories
   - (5) None of the above

2. Capital market regulator is [BOB 2008]
   - (1) RBI (2) IRDA
   - (3) NSE (4) BSE
   - (5) SEBI

3. Many times, we read about future trading in newspapers. What is 'future trading'? [BOB 2008]
   - I. It is nothing but a trade between any two stock exchanges, wherein it is decided to purchase the stocks of each other on a fixed price throughout the year.
   - II. It is an agreement between two parties to buy or sell an underlying asset in the future at a predetermined price.
   - III. It is an agreement between stock exchanges that they will not trade the stocks of each other under any circumstances in future or for a given period of time.

   Select the correct answer using the codes given below
   - (1) Only I (2) Only II
   - (3) Only III (4) II and III
   - (5) None of these

4. Which of the following is the regulator of the credit rating agencies in India? [BOB 2008]
   - (1) RBI (2) SBI
   - (3) SIDBI (4) SEBI
   - (5) None of these

5. Which of the following cannot be called as a debt instrument as referred in financial transactions? [Indian Overseas Bank 2009]
   - (1) Certificate of deposits
   - (2) Bonds (3) Stocks
   - (4) Commercial papers (5) Loans

6. When an agent asks a customer to invest in a mutual fund product without telling him/her about the risks involved in the investment, the process is termed as [SBI 2008]
   - (1) mis-selling
   - (2) undertaking
   - (3) misappropriation of funds
   - (4) cross-selling
   - (5) None of the above

7. The stock market index of London, stock market is referred as [BOI PO 2008]
   - (1) sensex (2) footsie (FTSE)
   - (3) nifty (4) bullish
   - (5) None of these

8. Which is the first Indian company to be listed on NASDAQ? [BOB 2008]
   - (1) Reliance (2) TCS
   - (3) HCL (4) Infosys
   - (5) None of these

9. In the capital market, the term arbitrage is used with reference to [BOB 2008]
   - (1) purchase of securities to cover the sale
   - (2) sale of securities to reduce the loss on purchase
   - (3) simultaneous purchase and sale of securities to make profits from price
   - (4) variation in different markets
   - (5) All of the above

10. Which of the following organisations is known as the market regulator in India?
    - (1) IBA (2) SEBI
    - (3) AMFI (4) NSDL
    - (5) None of these

11. The availability or cash and other cash like marketable instruments that are useful in purchases and investments are commonly known as **[Canara Bank 2009]**
(1) cash crunch (2) liquidity
(3) credit (4) marketability
(5) None of these

12. In a company, the use of price-sensitive corporate information by the company people to make gains or cover losses is known as **[Indian Overseas Bank 2009]**
(1) insider trading (2) future trading
(3) foreign trading (4) stock trading
(5) None of these

13. Many a times, we read a term 'SEPA' in financial newspapers. What is the full form of the SEPA? **[United Bank of India 2009]**
(1) Single Exchange Processing Agency
(2) Single Euro Payments Area
(3) Single Electronic Processing Agency
(4) Super Electronic Purchase Agency
(5) None of the above

14. Which of the following financial products are not much popular in India as they have been launched only recently? **[Indian Overseas Bank 2009]**
(1) Development bonds
(2) Insurance policies
(3) Mutual funds
(4) Sovereign wealth funds
(5) All are very popular products in India

15. The actual return of an investor is reduced sometimes as the prices of the commodities go up all of a sudden. In financial sector, this type of phenomenon is known as **[Indian Overseas Bank 2009]**
(1) probability risk (2) market risk
(3) inflation risk (4) credit risk
(5) None of these

16. What is the full form of 'ULIP', the term which was in the news recently? **[Syndicate Bank 2010]**
(1) Universal Life and Investment Plan
(2) Unit Loan and Insurance Plan
(3) Universal Loan and Investment Plan
(4) Uniformly Loaded Investment Plan
(5) Unit Linked Insurance Plan

17. In one of his speeches, Pranab Mukherjee said that the government had no plans to dilute the roles of market regulators. This means, the role of which of the following will not be diluted? **[Syndicate Bank 2010]**
(1) Life Insurance Corporation of India (LIC)
(2) Confederation of Indian Industry (CII)
(3) Federation of Chambers of Commerce and Industry (FICCI)
(4) Bureau of Indian Standards
(5) Securities and Exchange Board of India (SEBI)

18. Equity schemes managed strong NAV gains which boost their assets' was a new in some financial newspapers. What is the full form of NAV used as in above headlines? **[Central Bank of India 2010]**
(1) Nill Accounting Variation
(2) Net Accounting Venture
(3) Net Asset Value
(4) New Asset Venture
(5) None of the above

19. As per the announcement made by the RBI, some stock exchanges in India are allowed to introduce Plain Vanilla Currency Option. The term Plain Vanilla Currency Option is associated with which of the following activities/operations? **[Central Bank of India 2010]**
(1) Dollar-Rupee exchange rate
(2) Floating of commercial papers
(3) Launch of new mutual funds
(4) Deciding the opening price of a share on a particular business day
(5) None of the above

20. FIMMDA stands for **[Allahabad Bank 2011]**
(1) Foreign Investment Markets and Derivatives Market Association
(2) Fixed Income Money Markets and Derivatives Association
(3) Fixed Income and Money Market Development Association
(4) Floating Income and Money Markets Derivative Assets
(5) None of the above

21. According to the Securities and Insurance Laws (Amendment) Bill 2010, who amongst the following will be the Vice Chairman of the Joint Commission to resolve differences amongst the financial regulators? **[Allahabad Bank 2011]**

(1) Finance Minister, GoI
(2) Deputy Chairman, Planning Commission
(3) Chairman, SEBI
(4) Chairman, Central Vigilance Commission
(5) Governor, RBI

22. Many times, we read in newspapers that a company is planning to bring a public issue. What does it mean? **(Syndicate Bank 2011)**

I. Shares of the company will be issued only through public sector organisations like banks/central financial institutions etc.

II. Shares of the company will be issued to general public only through primary market.

III. This means some stakeholders/promoters are willing to leave the company. Hence, they wish to sell their stock to the general public.

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) Only III
(4) All of the above
(5) None of the above

23. SEBI is a/an **(Indian Overseas Bank 2011)**

(1) advisory body
(2) statutory body
(3) constitutional body
(4) non-statutory body
(5) registered as a society

24. Which of the following organisations/agencies has established a fund known as Investor Protection Fund? **(Indian Overseas Bank 2011)**

(1) RBI
(2) SIDBI
(3) Bombay Stock Exchange
(4) Ministry of Finance
(5) Ministry of Commerce and Industry

25. Mutual funds are regulated by **(Corporation Bank 2011)**

(1) Association of Mutual Funds of India (AMFI)
(2) Securities and Exchange Board of India (SEBI)
(3) Reserve Bank of India
(4) IRDA
(5) None of the above

26. Which of the following is not a component or India's securities market? **[Andhra Bank 2011]**

(1) Commodity futures
(2) Small savings in national saving certificates
(3) Government bonds
(4) Corporate equity
(5) Derivatives on currency

27. Which of the following bodies promoted Securities Trading Corporation of India Limited (STCI) jointly with the public sector banks? **(Indian Overseas Bank 2011)**

(1) SEBI
(2) ICICI Limited
(3) IDBI Limited
(4) RBI
(5) IRDA

28. Non-convertable debentures are **(IBPS Specialist Officer 2012)**

(1) debt instruments which acquire equity 'status at the issuers' option
(2) debt instruments which acquire equity status at the investors option
(3) debt instruments which acquire equity status with the permission of Registrar of Companies
(4) debt instruments which acquire equity status on maturity
(5) debt instruments which retain their debt character and cannot acquire equity status

29. Which of the following stock exchanges in India, recently launched 'Carbon Index', so that investors can assess risk and opportunities associated with climate change? **(IBPS Specialist Officer 2012)**

(1) Delhi Stock Exchange
(2) National Stock Exchange
(3) Bombay Stock Exchange
(4) Kolkata Stock Exchange
(5) Ahmedabad Stock Exchange

30.*Which of the following is the main advantage of 'ASBA' applicants for share allotment?

(IBPS Specialist Officer 2012)

(1) They have got secured allotment of shares
(2) They have got certain preference in allotment of shares as compared to general applicants
(3) They need not remit the fund for allotment of shares, they will do so after shares are allotted to them
(4) Their deposit/OD account is not debited, only the funds are blocked for the same and they continue to avail interest till the shares are allotted to them
(5) None of the above

31. Which of the following was the first mutual fund listed on the newly launched mutual fund platform on National Stock Exchange?

(1) UTI Mutual Fund
(2) SBI Mutual Fund
(3) LIC Mutual Fund
(4) Bank of Baroda Mutual Fund
(5) None of the above

32. SEBI allows retail investors to apply for shares of Initial Public Offerings without actual transfer of their funds from their accounts. What is this facility known as?

(1) Systematic transfer plans
(2) Systematic investment plans
(3) Hedge fund accounts
(4) ASBA
(5) None of the above

33. Which of the following best describes the Securities and Exchange Board of India?

(1) SEBI is the regulator for the capital markets
(2) SEBI protects the interest of investors
(3) SEBI is for ethical practices
(4) All of the above
(5) None of the above

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1. (3)	2. (5)	3. (2)	4. (4)	5. (5)	6. (1)	7. (2)	8. (4)	9. (3)	10. (2)
11. (2)	12. (1)	13. (2)	14. (4)	15. (2)	16. (5)	17. (5)	18. (3)	19. (1)	20. (2)
21. (5)	22. (2)	23. (2)	24. (1)	25. (2)	26. (1)	27. (4)	28. (5)	29. (3)	30. (4)
31. (1)	32. (4)	33. (4)							

Chapter

8

Industrial Development *and* Foreign Trade

Definition of Industry

Industry refers to an economic activity concerned with the processing of raw materials and manufacture of goods in factories. Industries are often classified based on their principal product *e.g.*, steel industry, automobile industry, textile industry etc.

The products of industries can be consumer goods (goods, which are finally consumed by consumers) like textiles, cosmetics etc or producer goods (goods used by manufacturers for producing some other goods) like machinery, tools, equipment etc.

Importance of Industry

The Industry sector of the economy is important for a country for many reasons like

- Rapid growth of national income is possible only through industrialisation as growth in agriculture is limited by factors including natural factors.
- Industries can provide better quality and more employment than the agriculture sector.
- Value addition in the industrial sector can earn more foreign exchange than simply exporting raw materials.
- The industrial sector provides goods for the development of basic infrastructure of the country like power, telecom etc, which then provides the basis for the growth of other sectors like agriculture and services.
- National security requires that products for defence and other strategic sectors be produced within the country itself, so as to guard against adverse eventualities like sanctions, wars etc.

The concept of **'Industrial Policy'** is comprehensive and it covers all those Procedures, principles, Policies rules and regulations which control the Industrial undertakings of a country and shape the pattern of industrialisation. It incorporate fiscal and monetary policies, the tariff policy, Labour policy and government's attitude not only towards external assistance, but the public and private sectors also.

Industrial Policy

An industrial policy provides guidelines for the effective co-ordination of the activities of various sectors of the economy. When India achieved independence in 1947, the national consensus was in favour of rapid industrialisation of the economy, which was seen not only as the key to economic development, but also economic sovereignty.

In the subsequent years, India's Industrial Policy evolved through successive Industrial Policy Resolutions and Industrial Policy Statements. Specialise priorities for industrial development were also laid down in the successive five year plans.

New Industrial Policy (NIP), 1991

The Government of India announced the New Industrial Policy on 24th July, 1991. The main objective of this policy is to unshackle the Indian industrial economy from administrative and legal controls. Its main aim is to raise industrial efficiency to the international level through substantial deregulation of the industrial sector of the country.

Salient Features (NIP 1991)

- **Delicensing** The industrial licensing was abolished irrespective of the level of investment, except for 18 specified industries like defence, atomic energy etc. Since then, most of these industries were delicensed and now only three industries fall under the purview of industrial licensing.
- **Foreign Investment** Foreign capital investment limit was raised from 40% to 51% in high technology and high investment priority industries.
- **Foreign Technology** Automatic approval was granted for foreign technology agreements upto the limit of ₹ 200 crore subject to 5% royalty on domestic sales and 8% on exports.
- **Foreign Investment Promotion Board** (FIFE) It was established to expeditiously clear foreign investment proposals. It serves as a single window clearing agency for the FDI proposals.
- **Industrial Location Policy** Excepting the big cities with population of one million, in other cities, industrial licensing will not be required, but for those industries, where licensing is compulsory. In case of cities with population of one million or above, excepting non-pollutant industries, all other units will be set-up at a distance of 25 km from the city limits.
- **MRTP Limit Scrapped** The threshold limit of ₹100 crore worth of assets for classification of a company as MRTP company was removed, such companies were to be recognised on case-by-case evaluation basis.
- **Phased Manufacturing Programme was Abolished** Under this programme, government used to impose a condition on foreign firms to gradually reduce and finally eliminate the use of imported inputs.
- **Mandatory Convertibility Clause was Abolished** It is the condition imposed by the financial institutions on private companies that a part of their lending would be converted into equity at some future date.
- **New Small Enterprise Policy** A separate policy was announced by the government in August, 1991, for the promotion of small-scale industries.
- **Public Sector's Role Diluted** The following measures were undertaken to reform the public sector enterprises
    - *(i)* The number of industries reserved exclusively for the public sector were reduced from 17 to 8 under NIP, 1991. Now, it has been reduced to just three viz atomic energy, minerals specified under the schedule of atomic energy and rail transport.
    - *(ii)* Like the private enterprises, sick PSUs were also placed under the purview of the Board for Industrial and Financial Reconstruction (BIFR).
    - *(iii)* Professionalisation of management by inducting non-official members in the boards of PSUs.

Industries Requiring Compulsory Licensing (Presently)

- Distillation and brewing of alcoholic drinks.
- Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
- Electronic aerospace and defence equipment all types.
- Industrial explosives including match boxes.
- Specific hazardous chemicals *viz*,
    - (i) Hydrocyanic acid
    - (ii) Phosgene
    - (iii) Isocyanates and diisocyanates of hydrocarbon

Index of Industrial Production (IIP)

IIP is an index for measuring the level of industrial activity in the country. The all India IIP is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to that in a chosen base period. It is complied and published monthly by the **Central Statistics Office** (CSO), with the time lag of six weeks from the reference month.

The Index of Industrial Production (IIP), with 2004-05 as base is the leading indicator for industrial performance in the country. Compiled on a monthly basis, the current IIP series based on 399 products/product groups is aggregated into three broad groups of mining, manufacturing and electricity. The IIP as an index shows both the level of production and growth.

National Manufacturing Policy, 2011

- The Indian government approved a long-debated manufacturing policy on 25th October, 2011. The intent of the policy is to boost the country's manufacturing capability.
- To increase the share of manufacturing sector from the current level of around 16% of GDP to 25% by 2022.
- To create 100 million new jobs by 2022 in special manufacturing hubs.
- Increase technological depth and value addition in Indias manufacturing to enable India to improve its trade balance, which has been deteriorating with increases in imports (including large volumes of manufactured goods) exceeding exports.
- In India, manufacturing as a share of GDP is much lower than in economies shch as China, where it is more than 40%.

Industrial-Corridor Projects

These are as follows

Delhi-Mumbai Industrial Corridor Projects (DMIC)

The is a State-Sponsored Industrial Development Project of the Government of India. A MOU (Memorandum of Understanding) was signed in December, 2006 between Ministry of Economy Trade and Industry (METI) of Government of Japan and Secretary, Department of Industrial Policy and Promotion (DIPP) I thos devised during the Japan Prime Minister visit to India in 2011. It is an ambitious project aimed at developing an Industrial Zone spanning across six states in India. The project will see major expansion of Infrastructure and Industry-including industrial clusters and rail, road, port, air connectivity in the states along the route of the corridor. The ambitious Delhi Mumbai Industrial Corridor (DMIC) has received major boost with India and Japan inking an agreement to set-up a project development fund.

Chennai-Bangalore Industrial Corridor Project (CBIC)

The is an upcoming mega infrastructure project of Government of India. The corridor plans to come up Along Chennai, Sriperumbudur, Ponnapanthangal, Ranipet, Chittoor, Bangarupalem, Palamaner, Bangarpet, Hoskote and Bangalore. It is expected to boost commerce between South India and East Asia by enabling quicker movement of goods from these places to the Chennai and Ennore ports.

The Department of Industrial Policy and Promotion (DIPP) and the Japan International Cooperation Agency (JICA) are currently preparing a comprehensive plan for the Chennai-Bangalore Industrial Corridor.

Mumbai-Bangalore Economic Corridor (BMIC)

The is a proposed economic corridor in India between Mumbai and Bangalore.

The preliminary work on the corridor is set to start from 13th November, 2013. Indian and British governments have agreed to undertake a joint feasibility test on the project. Indian Government has aimed to generate an investment over 300000 crores (USD 50 billion) from this corridor and expected to create 2.5 million jobs. Mumbai- Bangalore corridor is expected to pass through different cities, Pune, Satara, Kolhapur, Belgaum, Dharwad, Davangere, Haveri, Chitradurga and Tumkur.

Amritsar Delhi Kolkata Industrial Corridor (ADKIC)

The is a proposed economic corridor in India between the cities of Amritsar, Delhi and Kolkata, developed by the Government of India.

It is an ambitious project aimed at developing an Industrial Zone spanning across seven states in India and will be a beneficial for 20 cities under this states.The project will see major expansion of infrastructure and industry including industrial clusters and rail, road, port, air connectivity in the states along the route of the corridor. As of 20th January, 2014, the Government of India has approved the project, which seeks boost manufacturing sector in the country.

Industrial Modernisation :

Intellectual Property Rights

For the cultural and innovative development, *government has taken following steps*

- To comply with international regulations.
- To protect the national interests.
- Modernisation of the administration and creating awareness.

Achievements of Industrial Sector

Following are the achievement of recent years

1. **Patent Design** It is a form of legal protection granted to the ornamental design of a functional item. Design patents are a type of industrial design right.
2. **Indian Trademark Law** It statutorily protects trademarks as per the Trademark Act, 1999 and also under the common law remedy of passing off. Trademark law 2010, was accepted by the Parliament and was converted into the law.
3. **IPR Awareness Program** Recognising the importance of intellectual property, the Hon'ble President of India declared the decade of 2011-2020 as the Decade of Innovation. The future prosperity of India in the new knowledge economy would increasingly depend on its ability to generate new ideas, processes and solutions and the process of innovation would convert knowledge into social good and economic wealth.
4. **National Design Policy** Realising the increasing importance of design in economic, industrial and societal development and in improving the quality of products and services, the Government of India had initiated a consultative process with industry, designers and other stakeholders to develop the broad contours of a National Design Policy.

Popular Industries of India

These are as follows

Cement Industry

The foundation of stable Indian Cement Industry was laid in 1914, when the Indian cement company limited started manufacturing of,cement at Porbandar in Gujarat.

- India is the second largest producer of cement in the world.
- The per capita consumption of cement in India is just 68 kg.

Automotive Industry

India is the second largest manufacturer of motorcycle and fifth largest manufacturer of commercial vehicles in the world.

- In 2009, India was the fourth largest exporter of passenger cars after Japan, South Korea and Thailand.
- Automotive industry was delicensed in July, 1991, however, passenger cars industry was delicensed in 1993. India is the largest manufactures of tractor in the world.
- India is the 9th largest car manufacturer in the world.

Heavy Electrical Industry

Heavy Electrical Industry is concerned with the development of power sector in India. Heavy Electrical Industry includes power generation, transmission, distribution and utilisation equipments.

In October 2012, government of India launched an ambitious target to provide affordable electricity to all in next 5 years. Heavy Electrical Industry include turbo generators, boilers, various types of turbives, transformers, Switch gears and other allied items.

Cloth/Textile Industry

Textile Industry is an integral part of Indian Economy. This sector provides ample scope for the industrial production, employment generation and also the earning of valuable foreign exchange. Presently it contributes 14% in Industrial Production, 4% in Gross Domestic Product and 12-53% in foreign income.

Policy of Navratnas

Navratna was the title given originally to nine Public Sector Enterprises (PSEs), identified by the Government of India in 1997, as its most prestigious, which allowed them greater autonomy to compete in the global market. Navratna status empowers the PSUs to invest up to ₹ 1000 crore or 15% of their net worth on a single project without seeking government approval. The overall ceiling on such investments in all projects put together is 30%, of the net worth of the company.

Criteria for Navratna Status for PSUs

- It should have a schedule 'A' and Miniratna category-1 status.
- It should have atleast three 'excellent' or 'very good' Memorandum of Understanding (MoU) ratings during the last five years.
- It should have a composite score of 60 out of 100 marks based on its performance during the last three years on these six criterias-Net Profit to Net worth, manpower cost to cost of production or services, gross margin as capital employed, gross profit as turnover, earnings per share, inter-sectoral comparison based on Net Profit to Net Worth.
- The company should also have four independent directors on its board. Navratna companies, subjects to certain guidelines have extra power to incur capital expenditure and decide upon joint ventures.
- Set-up subsidiaries/offices abroad
- Enter into technological and strategic alliances
- Raise funds from capital markets (international and domestic) enjoy substantial operational and managerial autonomy.

Policy of Miniratnas

The government has also accorded the status of Miniatna to some profit making PSEs.

There are two categories of Miniratnas

1. Category I

These are companies, which have made a profit in each of last three years and earned a profit of ₹ 30 crore in atleast one of the three years.

They are allowed to incur capital expenditure without government approval upto 500 crore or equal to their net worth whichever is lower. There are 52 Miniratnas of this category at present (February, 2013).

2. Category II

These are companies, which have made profits for the last three years continuously and have a positive Net Worth. They can incur capital expenditure upto ₹ 300 crore or 50% of their Net Worth whichever is lower. There are presently (February, 2013) 16 such category-II Miniratnas.

The Maharatnas

Maharatna Scheme was introduced for Central Public Sector Enterprises (CPSEs), with effect from 19th May, 2010, in order to empower mega CPSEs to expand their operations and emerge as global giants. The objective of the scheme is to delegate enhanced powers to the boards of identified large-sized Navratna CPSEs, so as to facilitate expansion of their operations, both in domestic as well as global markets.

CPSEs fulfilling the following criteria are eligible to be considered for grant of Maharatna status

- Having Navratna status,
- Listed on the Indian stock exchange, with a minimum prescribed public shareholding under SEBI regulations,
- An average annual turnover of more than ₹ 25,000 crore during the last 3 years,
- An average annual Net Worth of more than ₹ 15,000 crore during the last 3 years,
- An average annual Net Profit after tax of more than ₹ 5,000 crore during the last 3 years,
- Significant global presence or international operations.

The coveted status empowers the hoards of these firms to lake investment decisions up to ₹ 5,000 crore as against the present ₹ 1,000 crore limit for Navratnas without seeking government approval. The Maharatna firms would now be free to decide oil investments up to 15% of their Net Worth in a project, limited to an absolute ceiling of ₹ 5000 crore.

CPSEs List of Maharatna and Navratna

CPSEs Maharatna

- Oil and Natural Gas Corporation Limited (ONGC)
- Indian Oil Corporation Limited (IOCL)
- Steel Authority of India Limited (SAIL)
- NTPC Limited
- Coal India Limited (CIL)
- Bharat Heavy Electricals Limited (BHEL)
- Gas Authority of India Limited (GAIL)

CPSEs Navratna

- Bharat Electronics Limited
- Bharat Petroleum Corporation Limited
- Hindustan Aeronautics Limited
- Hindustan Petroleum Corporation Limited
- Mahanagar Telephone Nigam Limited
- National Aluminium Company Limited
- NMDC Limited
- Oil India Limited
- Power Finance Corporation Limited
- Power Grid Corporation of India Limited
- Rashtriya Ispat Nigam Limited
- Rural Electrification Corporation Limited
- Shipping Corporation of India Limited
- Nevyeli Lignite Corporation Limited
- Engineers India Limited
- National Buildings Construction Corporation Ltd.

Foreign Trade *and* Balance of Payment

Meaning Foreign of Trade

The Exchange of goods and services between the two countries is termed as foreign trade. The purpose of foreign trade lies in meeting the domestic demands for goods and services.

There are two components of foreign trade

1. **Exports** When goods and services are sold to the foreign country for the motive of earning more profit, it is called Exports
2. **Imports** When purchasing goods and services from a foreign country to meet the domestic needs in the country is known as imports.

Foreign Trade Policy

It is a set of guidelines and instructions established by the Director General of Foreign Trade (DGFT) in matter related to the import and export of goods in India.

Foreign Trade Policy 2009-14

In India, at central level the foreign trade policies are administered by the Ministry of Commerce and Industry. In post liberalisation era the condition of foreign trade and India's share in global trade is improving significantly.

Commerce Minister Mr Anand Sharma on 27th August, 2009 released the Foreign Trade Policy for the period 2009-14. Five year trade policy remains silent on export target for the year 2009-10, but policy aims at achieving an annual export growth of 15 % annually with an annual target of $ 200 billion by March, 2011.

In its new trade policy, the government relaxed and extended two flagship schemes for exporters, the Export Promotion Capital Goods Scheme (EPCGS) and the Duty Entitlement Passbook Scheme (DEPS) and extended other stimulus measures in a bid to reserve the decline in exports and double outbound sales of goods and services in next five years. The new foreign trade policy clearly gives the message to double India's exports of Gods and services by 2014 and double its share in global trade by 2020.

Major Export-Import Zone of India

Special Economic Zones (SEZ)

It is a geographical region that has economic and other laws that are more free-market oriented than a country's typical national laws.

Incentives Granted to SEZ Units, 2011 Duty-free imports/domestic procurement of goods for development, operation and maintenance of **SEZ units**.

- 100% income tax exemption 'for sez M units for the first five years, 50% for the next five years and 50% of the ploughed-back export profit for the next 5 years.
- Exemption from minimum Alternate tax.
- Exemption from the Central sales tax.
- Exemption from the Service tax.
- Exemption from the State sales tax and other levies (*e.g.*, stamp duty and electricity duty) as extended by the respective State Government.
- External commercial borrowing by SEZ units up to US $ 500 million in 1 year without any maturity restriction through recognised banking channels.
- 100% FD1 investment through automatic route.
- Single window clearance for Central and State level approval procedures.

Export Processing Zone (EPZ)

A Free Trade Zone (FTZ) or Export Processing Zone (EPZ), also called foreign-trade zone, formerly free port, is an area within, which goods may be landed, handled, manufactured or reconfigured and re-exported without the intervention of the customs authorities. Only when the goods are moved to consumers within the country in which the zone is located do they become subject to the prevailing customs duties.

Free-trade zones are organised around major seaports, international airports and national frontiers–areas with many geographic advantages for trade. It is a region where a group of countries has agreed to reduce or eliminate trade barriers. Free trade zones can be defined as labour intensive manufacturing centers that involve the import of raw materials or components and the export of factory products.

Agri Export Zone (AEZ)

An Agri Export Zone (AEZ) is a specific geographic region in a country demarcated for setting up agriculture based processing Industries, mainly for export. The term is widely used mainly in India. AEZ are to be identified by the State Government, who would evolve a comprehensive package of services provided by all State Government agencies, state agriculture universities and all institutions and agencies of the Union Government for intensive delivery in these zone. Corporate sector with proven credentials would be encouraged to sponsor new agri export zone or take over already notified agri export zone or part of such zones for boosting agri exports from the zones.

Foreign Trade Agreement (FTA)

- Across the globe, there is an expanding network of Free Trade Agreements (FTAs). High-quality, comprehensive free trade agreements can play an important role in supporting global trade liberalisation and are explicitly allowed for under the World Trade Organisation (WTO) rules.
- FTAs can cover entire regions with multiple participants or link just two economies. Under these agreements, parties enter into legally binding commitments to liberalise access to each others' markets for goods and services and investment. FTAs also typically address a range of other issues such as intellectual property rights, government procurement and competition policy.

Balance of Payment (BoP)

Balance of payments is a systematic record al economic transactions between the residen of a country and the East of the world.

According to the **BJ Cohen**, *"It shows th country's trade positions, changes in its ne position as foreign lender or borrower an changes in its official reserve holding."*

Ordinarily, a country has to deal with othe *countries in respect of 3 items, namely*

1. Visible items, which include all types physical goods exported and imported.
2. Invisible items, which include all thos services, whose export and import are n visible.
3. Capital transfer, which are concerned wi capital receipts and capital payments.

Each country has to workout a balance in respect of its dealings, in all the above three items with other countries of the world in a given period.

Such a balance may assume anyone of the three positions

1. Balanced
2. Negative (unfavourable)
3. Positive (favourable)

When the difference in the value of imports and exports of all the three items *i.e.*, visible, invisible and capital transfers, is taken into account, it is called Balance of Payments Balance of payments is thus, an overall record of all economic transactions of a country in a given period, with rest of the world.

Balance of Trade (BoT)

When the difference in the value of imports and exports of only physical goods or visible items, is taken into account, it is called balance of trade or net exports.

Balance of trade may be

1. **Surplus or Favourable** In this situation, exports are greater than imports.
   i.e., Exports > Imports
2. **Deficit or Unfavourable** In this situation, imports are greater than exports.
   i.e., Exports < Imports
3. **Equilibrium in Balance of Trade** In this situation, total value of goods exported is equal to the total value of goods imported by a country
   i.e., Exports = Imports

Net Value of the three Balances

1. Balance of visible trade.
2. Balance of invisible trade.
3. Balance of unilateral transfers is recorded as balance on current account.

Current account balance = Balance of visible trade + Balance of invisible trade + Balance of unilateral transfers

Structure of Balance of Payments

Balance of Payments (BoP) account broadly comprises of the following components

Current Account

Current account is that account, which records imports and exports of goods and services and uniliteral transfers. The current account is used to mark the inflow and outflow of goods and services into a country. Earnings on investments, both public and private, are also put into the current account.

Components of Current Account

Current account records the following transactions

- Export and import of goods (or of visible items).
- Export and import of services (or of invisible items)
- Unilateral transfers from one country to the other.

In the context of current account BoP, following are some important observations

- All exports (of goods and services), are recorded as positive (+) items as these result in the flow of foreign exchange into the country.
- All imports (of goods and services), are recorded as negative (-) items as these cause the flow of foreign exchange out of the country.
- Balance occuring on account of export and import of goods is regarded as balance of visible trade.
- Balance occuring on account of export and import of services is recorded as balance of invisible trade.
- Receipts of unilateral transfers are recorded as positive items.
- Payments of unilateral transfers are recorded as negative items.

Capital Account

It is that account, which records all such transactions between residents of a country and rest of the world, which causes a change in the asset or liability status of the residents of a country or its government. Investments (FDI and FII) and Borrowings (ECB etc) are part of the capital account.

Foreign Investment

Foreign investment means a investment into production or business in a country by an individual or company in another country for profit earning. Typically, foreign investment denotes that foreigners take a some what active role in management as a part of their investment. Foreign investment typically works both ways, especially between countries of relatively equal economic stature.

Foreign investment on the basis of nature can be categorised into two types

1. Foreign Direct Investment(FDI)
2. Foreign Portfolio Investment (FPI)

Foreign Direct Investment (FDI)

Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facilities.

It refers to direct investment in the productive capacities of a country by someone from outside the country. Such an investment can be in the form of setting up a new plant or through purchase of shares of a company, where the shareholding gives the foreign entity control over the business of the company. IMF defines control in such a case as, holding 10 % or more of ordinary shares or voting power in an incorporated firm. A foreign company can set-up its business in India in two ways, by setting up a company under the companies act or by setting up an unincorporated entity like liaison office, project office or branch office.

Two concepts associated with FDI are Greenfield and Brownfield investment

Greenfield Investment

Its a form of foreign direct investment, where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Brownfield Investment

It happens, when a company or government entity purchases or leases existing production facilities to launch a new production activity.

Types of FDI

- **Horizontal FDI** arises, when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
- **Platform FDI**, Foreign Direct Investment from a source country into a destination country for the purpose of exporting to a third country.
- **Vertical FDI**, takes place when a firm through FDI moves upstream or downstream in different value chains *i.e.,* when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise.

Sector Specific Limits of FDI into India

Sector	Limit	Route
Defence Production	49%	FIPB
Drugs and Pharmaceuticals	100%	Automatic
Banking (Private) Sector	74%(FDI + FII) Fill not exceed 49%	Automatic
Insurance	49%	Automatic
Single Brand Retail	100%	FIPB
Multi Brand Retail	51%	FIPB
Power	100%	Automatic

Foreign Portfolio Investment (FPI)

In economics, foreign portfolio investment is the entry of funds into a country where foreigners make purchases in the country's stock and bond markets, sometimes for speculation. It is a usually short term investment (sometimes less than a year, or with involvement in the management of the company), as opposed to the longer term Foreign Direct Investment partnership (possibly through joint venture), involving transfer of technology and "know-how". FPI is positively influenced by high rates of return and reduction of risk through geographic diversification. The return on FPI is normally in the form of interest payments or non-voting dividends.

Foreign Institutional Investment (FII)

These are investments by entities from outside the country into the financial assets like debts and shares of companies from a different country, in which they are incorporated.

FIIs (Foreign Institutional Investment) are required to register with SEBI (Securities and Exchange Board of India) and any foreign individual wanting to invest into India has to come through one of these FIIs.

Participatory Notes (P-Notes)

These are financial instruments used by investors or hedge funds that are not registered with the securities and exchange board of India to invest in Indian securities. India-based brokerages buy India-based securities and then issue participatory notes to foreign investors. Any dividends or capital gains collected from the underlying securities go back to the investors.

Global Depository Receipts (GDRs)

These are equity instruments issued in international markets like London, Luxembourg etc. Indian companies use GDRs to raise capital from abroad. GDRs are designated in dollars, euros etc.

American Depository Receipts (ADRs)

These are the equity instruments issued to American retail and institutional investors. They are listed in New York, either on Nasdaq or New York stock Exchange.

Indian Depository Receipts (IDRs)

These are similar to ADR/GDR. They are used by non-Indian companies in the Indian stock markets for issuing equity to Indian investors.

Currency Revaluation

Currency Revaluation means an estimated adjustment to a country's official exchange rate with respect to a chosen baseline. The baseline can be anything from wage rates to the prices of gold to a foreign currency.

Convertibility of Rupee

Convertibility of a currency is the ease, with which it can, be converted into any other foreign currency. Current account convertibility refers to freedom in respect of exports and imports, which has already been achieved to a large extent in India. Capital account convertibility refers to freedom to respect of investment and borrowing within India (by outsiders) and outside India (by those inside India).

Capital Account Convertibility in India

Capital Account Convertibility (CAC) for Indian economy refers to the abolition of all limitations with respect to the movement of capital from India to different countries across the globe. According to the Tarapore Committee, capital account convertibility refers to the freedom to convert local financial assets into foreign financial assets and *vice-versa* at market determined rates of exchange. It is associated with changes of ownership in foreign/domestic financial assets and liabilities and embodies the creation and liquidation of claims on or by the rest of the world.

India's Progress

Though, the rupee had become fully convertible on current account as early as 1991, the RBI has been adopting a cautious approach towards full float of the rupee, particularly after the 1997, South-East Asian currency crisis. While there has been a substantial relaxation of foreign exchange controls during the last 10 years, the current account convertibility since 1994. means that both resident.

Tarapore Committee II

The Reserve Bank of India has released the Report of the Tarapore Committee, which was set-up to prepare a roadmap for capital account convertibility, on 1st September, 2006.

The committee has made serveral recommendations

- Removal of tax benefits to NRIs.
- Greater autonomy to RBI.
- Complete check on fiscal deficit.
- Disallowing investment channel led through a particular country.
- Reduction of government stake in banks from 51% to 33%.
- Allowing enhanced presence of foreign banks.
- 10% voting limit for investment in banks should be scrapped.
- Non-resident corporates should be allowed to invest in Indian markets.

Devaluation of Currency

'Devaluation' means official lowering of the value of a country's currency within a fixed exchange rate system, by which the monetary authority formally sets a new fixed rate with respect to a foreign reference currency.

Suppose 1 $ = ₹ 50 New RBI or government devaluates Indian Currency and current exchange rate becomes 1 $ = ₹ 55.

Now as a result of this country's exports will increase because now an American can purchase goods worth ₹ 55 by spending 1 $ and country's imports will decrease because now importers will have to pay ₹ 55 instead of 50 E for a good worth 1 $.

Pre-requisites for Successful Devaluation

Devaluation affects trade in unable as well as invisible goods. *But devaluation becomes successful*

- If any other country doesn't devaluates its currency in response to first country
- Prices of goods for which imported new materials are used will go up. This increase in prices should be homes them the rate by which currency has been devaluated.
- Foreign exchange rate keeps on changing from time to time and it effects Indian rupee also. But that effect is called as depreciation not devaluation.

Exchange Rate

- It is the rate, at which Indian rupee will be exchanged *vis-a-vis* other international currencies, say US dollar, in the foreign exchange market.
- The rupee was historically linked to the British pound sterling till 1946. After independence, India had to fix and maintain the external value of the rupee in terms of gold or the US dollar as required under IMF rules. Therefore, India fixed the value of rupee at ₹ 3.30 per US dollar.
- The 1994-95, budget announced full convertibility of the rupee on current account *i.e.*, freedom to buy or sell foreign exchange is connection with the current account transactions under Article VIII of the IMF.

Double Taxation Avoidance Agreements (DTAA)

DTAA stands for Double Taxation Avoidance Agreement. It is an agreement between two countries with an objective to avoid taxation of the same income in both countries. India has comprehensive Double Taxation Avoidance Agreements (DTAA) with 84 countries as of now.

These treaties benefit institutions and individuals who earn in countries other than their country of residence, provided such an arrangement exists between their country of residence and the country/countries where their income sources are.

Tit-Bits

- Export-import policy was announced by the Government for the first time in year 1985.
- Considering the Chiness model, all EPZs except Cochin were converted into SEZ on 1st April, 2000.
- After independence, India had to fix and maintain the external value of the rupee in terms of gold or the US dollar as required under IMF.
- The concept of one person company has been introduced by companies bill, 2012.

Question Bank

1. Foreign Direct Investment (FDI) is investment directly into production in a country by a company located in another country, then which one of the following modes is correct about the FDI?
   - (1) Buying a company in the target country
   - (2) Expanding operations of an existing business in that country
   - (3) Investing in the shares and stocks of a company in the target country
   - (4) Both '1' and '2'
   - (5) Neither '1' nor '2'

2. Which one of the following factors is taken into account to calculate the Balance of Payment (BoP) of a country?
   - (1) Current account
   - (2) Changes in the foreign exchange
   - (3) Errors and omissions
   - (4) All of these
   - (5) None of these

3. BoP (Balance of Payment) refers to
   - (1) transactions in the flow of capital
   - (2) transactions relating to receipts and payment of invisible
   - (3) transactions relating only to exports and imports
   - (4) systematic record of all its economic transaction with the rest of the world
   - (5) All of the above

4. Consider the following statements

   I. Nominal Effective Exchange Rate (NEER) is the weighted average of bilateral exchange rate of the home currency in the terms of foreign currencies.

   II. Real Effective Exchange Rate (REER) is used to measure the movements of exchange rate as well as inflation differentials between India and its major trading partners.

   Which of the statements given above is/are correct?
   - (1) Only I
   - (2) Only II
   - (3) Both I and II
   - (4) Neither I nor II
   - (5) Either I or II

5. Which of the following is the component of India's Foreign Exchange Reserve?
   - (1) Special drawing rights
   - (2) Reserve tranche position of India in IMF
   - (3) Indian currency held by foreign countries
   - (4) Both '1' and '2'
   - (5) Neither '1' nor '2'

6. All of the following are useful options for the government to pursue to bolster foreign exchange reserves, except to
   - (1) impose exchange controls
   - (2) impose export controls
   - (3) adjust the exchange rate
   - (4) borrow foreign currencies
   - (5) permit a free floating exchange rate

7. The balance of international indebtedness is a record of a country's international
   - (1) investment position over a period of time
   - (2) investment position at a fixed point in time
   - (3) trade position over a period of time
   - (4) trade position at fixed point in time
   - (5) None of the above

8. Which of the following is considered as a capital inflow?
   - (1) A sale of US financial assets to a foreign buyer
   - (2) A loan from a US bank to a foreign borrower
   - (3) A purchase of foreign financial assets by a US buyer
   - (4) A U S citizen's repayment of a loan from a foreign bank
   - (5) None of the above

9. Which balance of payments item does not directly enter into the calculation of the US gross domestic product?
   - (1) Merchandise imports
   - (2) Shipping and transportation receipts
   - (3) Direct foreign investment
   - (4) Service exports
   - (5) All of the above

10. On the balance of payments statements, merchandise imports are classified in the
(1) current account
(2) capital account
(3) unilateral transfer account
(4) official settlements account
(5) None of the above

11. Which one of the following is the investment in securities that is intended for financial gain only and does not create a lasting interest in or effective management control over an enterprise?
(1) Foreign direct investment
(2) Portfolio investment
(3) Equity direct investment
(4) Both '1' and '3'
(5) None of the above

12. Inward remittances by foreign steamship and airlines companies to finance their operating expenses in the country are shown under
(1) the credit side of the current account of balance of payment
(2) the debit side of the current account of balance of payment
(3) the credit side of the capital/account of balance of payment
(4) the debit side of the capital account of balance of payment.
(5) None of the above

13. At present, the trade between India and China is in a state of 'payment imbalance', what does this mean in real terms?
I. China does not import many items from India whereas India imports more from China.
II. China does not pay India in time and a lot of delay is reported by the exporters.
III. India wants all payments to be made in US dollars areas China pays in its own currency.

Which of the statements given above is/are correct?
(1) Only I
(2) Only II
(3) Only III
(4) All of the above
(5) None of the above

14. Balance of trade of a country is equivalent to
(1) difference between the inward and outward remittances made in foreign exchange
(2) surplus generated shown in a trading account
(3) difference between exports and imports
(4) All of the above
(5) None of the above

15. With regard to the Export Policy of the Government of India, which of the following statements is correct?
(1) All commodities can be exported without license
(2) Export licenses are required for only a few items
(3) Export licenses are required for all items
(4) All the above
(5) None of the above

16. In India, which of the following agencies is responsible for announcing the Foreign Trade Policy?
(1) RBI
(2) EXIM Bank
(3) Foreign Ministry
(4) Industry and Commerce Ministry
(5) None of the above

17. What is the full form of 'EPZ'?
(1) Economical Plus Zone
(2) Entertainment Plus Zone
(3) Export Promotion Zone
(4) Electronic Promotion Zone
(5) None of the above

18. Some countries may not worry about an unfavourable balance on current account because
(1) they know they can always borrow to cover the deficit
(2) they import capital goods to build up export industries that will eventually, eliminate the deficit
(3) deficits are always a stimulant to economic growth, which is a higher priority
(4) they can if necessary, fix the exchange rate to wipe out the deficit
(5) their capital account will be favourable since the balance of payments always ends up at zero

19. If the current account for a country is in deficit, then there must be

(1) a surplus in the government budget
(2) low interest rates
(3) high productivity
(4) a capital account surplus
(5) the presence of attractive investment opportunities

20. A potential problem with free floating exchange rates is that

(1) people who practice arbitrage may gain from the losses of others
(2) uncertainty in exchange rate fluctuations may hinder international trade
(3) exchange rates may never reach equilibrium
(4) the currency markets may become monopolised
(5) less developed countries may issue too much currency

21. The balance of trade is given by

(1) income receipts minus income payments on investments
(2) the balance of unilateral transfers
(3) merchandise exports plus service exports minus the sum of merchandise and service imports
(4) merchandise exports minus merchandise imports
(5) the balance on current account

22. The foreign trade policy announced in the year 2004 was announced for a period of

(1) two years
(2) three years
(3) four years
(4) five years
(5) ten years

23. Debt service refers to

(1) interest payments on international debt as a percentage of a nation' merchandise exports
(2) the outflows from a nation's capital account to pay for its imports of foreign services
(3) the outflows from a nation's current account to pay for its import of foreign services
(4) debt owed to a nation for the export of its services
(5) international debt representing all the services transacted on all nation's balance of payments accounts

24. Which one of the following percentages is the share of the Indian export in the international trade?

(1) Less than 1%
(2) More than 1%, but less than 3%
(3) More than 3%, but less than 5%
(4) More than 5%, but less than 7%
(5) More than 8%

25. The balance on current account includes all of the following items except

(1) merchandise exports minus merchandise imports
(2) exports of services minus imports of services
(3) income receipts minus income payments on investments
(4) changes in US assets owned abroad and foreign assets owned in the US
(5) unilateral transfers of currency by individuals

26. In an economy's Balance of Payments account,

(1) the capital and current accounts must add to one
(2) the current account is always greater than the capital account
(3) both the balance on current account and the balance on capital account are zero
(4) the capital plus current account balances must equal zero
(5) capital outflows must equal capital inflows

27. Floating exchange rates refers to

(1) the ability of exchange rates to even out when displaced by shocks to the foreign exchange market
(2) new issues of foreign exchange offered on the market
(3) an exchange rate determined by the demand for and supply of a nation's currency
(4) an excess demand for a nation's currency that causes its devaluation
(5) an excess supply of a nation's currency that causes its appreciation

28. People who practice arbitrage will create mutually consistent exchange rates if

(1) they operate in a country that practices exchange controls

(2) exchange rates are set properly by government

(3) productivity increases in the economy of the country whose currency is being traded

(4) they buy a currency in one market at a low price and then sell at a high price in another market

(5) the currency being traded appreciates

29. We very frequently read about the activities of the Foreign Exchange Market in newspapers/ magazines.which of the following is/are the major function of the same?

I. Transfer of purchasing power from domestic to foreign market
II. Providing credit for financing foreign trade
III. Power to purchase gold from foreign countries, as most of the nations still work on Gold Standards.

Codes

(1) Only I (2) Only II
(3) Only III (4) Both I and II
(5) Both II and III

30. As per the RBI ,the economic conditions in India are not yet suitable for full convertibility of Rupee. At present Rupee is convertible at which of the following accounts?

I. Fully at Capital Account
II. Fully at Current Account
III. Partially at Trade Account

Codes

(1) Only I (2) Only II
(3) Only III (4) Only II and III
(5) None of these

31. Consider the following items

I. Gems and jewellery
II. Chemicals and related products
III. Engineering goods
IV. Textiles

Which of the items given above are the top items in India's manufactured exports?

(1) I, II and III (2) I, II and IV
(3) II, III and IV (4) All of these
(5) None of these

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1. (4) 2. (4) 3. (5) 4. (3) 5. (4) 6. (5) 7. (1) 8. (1) 9. (5) 10. (1)
11. (4) 12. (2) 13. (3) 14. (3) 15. (2) 16. (4) 17. (3) 18. (3) 19. (1) 20. (3)
21. (5) 22. (4) 23. (3) 24. (3) 25. (5) 26. (4) 27. (3) 28. (4) 29. (4) 30. (2)
31. (1)

Chapter

9

Public Finance and Budget

Public Finance

The study of government's revenue and expenditure is called as **public finance**. The boundaries of public finance in modern times is not limited to ways and means of government income and expenditure only, but it also studies public debt, financial administration and Fiscal Policy of the economy.

So, we can say that public finance studies revenue and expenditure of government of an economy and all the activities related to it.

Public finance can be divided into five sections which are as follows

Public Revenue/Income

Under the theory of public revenue, we study alternative sources of state income. It discusses and analysis comparative advantages and disadvantages of various forms of revenue and the principles which should govern the choice between them.

Public Expenditure

Under the theory of public expenditure, we deal with various principles, on the basis of which the direction of government expenditure is governed. Theory of public expenditure is a major tool for implementing welfare, growth stabilisation and other policies of the government.

Public Debt

Theory of public debt deals with all the loans and other liabilities of the government and all the principles related with debt.

Financial Administration

All financial activities involving issues of financial administration including public budget, its passing, auditing and similar other matters. Without a extensive study of relevant dimensions of financial administration the subject of public finance remains incomplete.

Economic Stability

Under the theory of economic stability, we study various policies and principles of finance to bring economic stability in the country. Fiscal policy of the government is studied under the theory of economic stability.

Tax

Tax is the main source of state income, which is compulsorily paid to the state. Government obtains tax from citizen and spends it on their welfare and common good.

Aims of Taxation

At present, the main aim of taxation is not to secure finances for the expenditure, but to reduce the economic inequalities of the income.

Following are the main aims of taxation

- To secure money for expenditure
- Regulation of economy
- Equitable distribution of income

Taxation in India

Taxation occupies a prominent position in the policy framework of the every government. Tax one of most significant source of government's revenue.

Different Types of Tax Policy

At global level, these are many different types of tax policy.

Following are the popular types

Progressive Tax Structure Under this type of tax structure with increasing income, the tax liability of a tax payer increases not only in absolute terms but, also as a proportion of his income.

Regressive Tax Structure When with the increasing income, percentage of tax decreases it is termed a regressive tax of the tax liability of the tax payer. The absolute tax liability, however, may increase even in this case.

Proportional Tax Structure The tax structure of an economy is termed as proportional if the tax liability of a tax payer increases in the same proportion as the increases in his income.

Digressive Tax System Under this type of tax structure, rate of taxation increases with the increase in income upto a limit but the rate of tax remains the same after that limit e.g., upto a income of ₹ 10 lakh the rate of taxation may be different according to varying incomes, but it may remain 30% for income above ₹ 10 takh.

Tax Revenue in India

Tax is a compulsory payment by the citizens to the government to meet the public expenditure. It is legally imposed by the government. On the tax payer and in no case tax payer can deny to pay taxes to government, can be direct, indirect tax, wealth tax, gift tax etc are example of direct tax and sales tax, excise duty, custom duty etc are example of indirect tax.

Generally, tax is divided into two parts which are as follows

1. Direct tax
2. Indirect tax

Direct Tax

The direct tax is that, which is borne by the person on whom it is levied. A direct tax cannot be shifted to other person. Direct as well as indirect money burden of the direct tax is on the person on whom the tax is imposed. Impact of the tax as well as incidence of the tax is on the same person.

Some of the central direct taxes are as follows

Income Tax

It is the tax levied directly on the income of the people by the Central Government.

Gift Tax

The tax is imposed by the Central Government on all donations and gifts over and above. The prescribed limits to the family members. However, donation given by the charitable institutions and companies is not covered under gift tax. This tax is basically imposed to check the evasion of state duty and wealth tax.

Corporate Tax

It is levied on the profit of the companies or corporations. It is the latest source of revenue of the government.

Wealth Tax

This tax is levied on the net wealth of the individuals. Hindu Undivided family and joint stock companies. It is minor source of revenue of the government, primarily imposed to reduce concentration of wealth in the society.

Interest Tax

This tax is imposed on the interest income of the commercial bank on their gross loans and advances. Now it is not in force in India.

Minimum Alternative Tax

To check the theft of Corporate Tax, MAT at a rate of 2.5% was introduced for the first time in year 1997-98. It is applied to that part of company's profit which is not covered under Corporate Tax.

Principal Direct and Indirect Tax in India

Direct Tax	Indirect Tax
Personal income tax	Excise duty
Corporation tax	Custom duty
Wealth tax	Sales tax
Gift tax	Service tax
Land revenue	Value added tax
Profession tax	Passenger tax
Stamp duty and registration charges	Entertainment tax
Securities trade tax	Electricity duty
Banking Two cash transaction tax	Motor vehicle tax

Indirect Tax

These are those taxes, which have their primary burden or impact on one person, but that person succeeds in shifting his burden on others. Consequently, the final or the real burden of the taxes or the incidence has to be borne by a third person.

Some of the central indirect taxes are as follows

Excise Duty

These duties are imposed by Central Government on the goods produced within the country except certain goods, on which State Government are empowered to impose tax. These goods includes liquor, drugs etc.

Custom Duty

These duties are imposed on commodities, which are imported or exported from India. In other words, when goods cross the political boundary of country or come from other countries, custom duties are imposed. Like excise duty, custom duty also contribute the government revenue.

Service Tax

Comparatively a new concept in India, services tax is a tax imposed on the person, who avails any specified service. Its importance as a sources of revenue has been increasing in recent years. The government is receiving more and more revenue from the service tax.

Value Added Tax (VAT)

It is an indirect tax, which is imposed on value added at the various stages of production or value adding. Value added refers to the difference between value of output and value of intermediate consumption. VAT, in fact is the multi-stage sales tax. It is imposed at each stage of production or value adding.

Value added tax = Total sales – Cost of intermediate consumption

In one of the most large scale reforms of the country's public finances in over past 50 years, India finally agreed to the launch of its much-delayed Value Added Tax (VAT) from 1st April, 2005. Haryana was the first state to introduce VAT in India from 1st April, 2003 out of 35 States/UTs, 33 have introduced VAT.

The Goods and Services Tax (GST)

It is a Value Added Tax (VAT) to be implemented in India, the decision on which is pending. It will replace the all indirect taxes levied on goods and services by the Indian Central and State Governments. It is aimed at being comprehensive for most goods and services. India is a federal republic and the GST will thus, be implemented concurrently by the Central and State Governments as the Central GST and the State GST respectively. Exports will be zero-rated and imports will be levied the same taxes as domestic goods and services adhering to the destination principle.

CENVAT

It is popularly known as *central excise duty*. It is duty on the manufacture production of goods in India. The regulatory body is the Central Board to Excise and Customs (CBSE), on agency of the department of revenue, Ministry of Finance in India.

Government evolved a new scheme, 'MODVAT' (Modified Value Added Tax). MODVAT scheme which essentially follow VAT Scheme of taxation, *i.e.*, if A manufacturer purchases certain components (raw materials) from another manufacturer B for use in its product. B would have paid excise duty on components manufactured by it and would have recovered that excise duty in its sales price from A. Now, A has to pay excise duty on product manufactured by it as well as bear the excise duty paid by the supplier of raw material B.

Tit-Bits

- **Octroi** is an indirect tax which is levied by local institutions.
- **VAT** (Value Added Tax) was first implemented in Germany.
- The relations between tax and its rate is shown by **Laffer Curve**.
- Tax on **agricultural income** was first charged in Bihar.
- **E stamping** devotes replacing stamp duty required for payment of registration of properties and documents.

Non-Tax Revenue

Non tax revenue are those receipts, which are received from sources other than taxes like fees, fines etc.

Some of the non tax receipts are as follows

Fee, License and Permit Fee is changed for government services like land registration fee, birth and death registration fee, passport fee, court fee etc. License and permit are the amount that the government charges for allowing the people perform a given job.

- **Escheat** It refers to income of state from property, which has no claimant heir. In the case, state has the right over such properly.
- **Special** Assessment It assessment is that payment which is made by the owners of those properties, whose value has appreciated due to development activities of the government.

Fines and Penalties Payment, which government receive by the law brakers.

Income from Public Expenditure Profits earned by the government from public sector enterprises.

Contribution of Tax in Public Revenue (in percentage)

Tax	Percentage Contribution
Corporate tax	21 %
Income tax	14 %
Central excise duty	11 %
Custom duty	10 %
Service tax and other taxes	7 %

The burden of indirect taxes can be shifted on other individuals.

Direct Tax Code

DTC (Direct Tax Code) has been bought in place of income tax Act, 1961. Under DTC the three tax rate prevailing has been kept as it is (10%, 20%, 30%) but tax exemption limit has been raised. Further there is a provision of higher exemption limit for women and the maturity income received from various saving schemes has seen kept out of ambit of tax. The DTC has been already in place and was implemented in mid of financial year 2012-13.

Tax Shifting

Transferring some or all of a tax burden of an entity (such as a subsidiary) to another (such as the parent firm). Tax shift or tax swap is a change in taxation that eliminates or reduces one or several taxes and establishes or increases others while keeping the overall revenue the same.

Tax Havens

It is a country or territory, where certain taxes are levied at a low rate or not at all.Individual and/or corporate entities can find it attractive to move themselves to areas with reduced or nil taxation level. This creates a situation of tax competition among government different jurisdiction tend to be havens for different type of taxes and for different categories of people and/or companies. *e.g.*, income tax, wealth tax and corporate tax etc.

Tax Evasion

It is the illegal evasion of taxes by individuals, corporations and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned or overstating deductions.

Tax Avoidance

It is the legal usage of tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law. Tax shattering is very similar and tax havens are jurisdictions which facilitate reduced taxes. The term tax mitigation is sometimes used, its original use was by tax advisers as an alternative to the prejorative term tax avoidance.

Committees on Tax Reforms

Following are the committees

Chelliah Committee

It was set up in 1991 under Chairmanship of Professor Raja Chelliah. The committee submitted its report in 1993 and most of the recommendations were included in Budget 1993-94.

Kelkar Committee

It was set up in 2002 by the Central Government, which submitted its report in same year. The committee was headed by Professor Vijay Kelkar. Its most of the recommendation has been accepted in last decade.

MK Gupta Committee

It was set up in 2012 professor the purpose of internalisation of common tax code, under goods and service tax.

Other Committees of Tax Reforms

Wanchu Committee	Direct tax
LK Jha Committee	Indirect tax
Rekha Committee	Indirect tax

'Sahaj' and 'Sugam' It Forms

The Finance Ministry has introduced simpler income tax return forms *Sahaj* and *Sugam* aimed at reducing compliance burden on salaried persons and small businessmen.

"Sahaj and Sugam are major steps towards simplification of income tax return filing,"

While Sahaj is for salaried people, Sugam return form is applicable for small businessmen and professionals covered under presumptive taxation. Under India's presumptive taxation, person carrying on businessmen will not be required to get his accounts audited if the annual total sales, turnover or gross receipts is less than ₹ 60 lakh.

The limit was increased by Finance Minister Pranab Mukherjee in 2010-11 budget from ₹ 40 lakh. The presumptive tax limit in case of professionals was increased to ₹ 15 lakh from ₹10 lakh.

General Anti Avoidance Rules (GAAR)

GAAR was introduced by previous Finance Minister Mr Pranab Mukherjee in his budget speech. GAAR sparked controversy for months. The possibility of tax authority scrutinising transactions aiming at tax avoidance left FII's Jittery. Further GAAR was in controversies again when Vodafone acquiring of Hutchisian came into light tax authorities claimed a loss of ₹ 11,000 crore and due on Vodafone.

GAAR will help in bringing transparency and efficiency in economic policy making and taxation.

Fiscal Policy

The part of the government policy, which is concerned with raising revenue through taxation and with deciding on the amount and purpose of government spending. Fiscal policy is the means, by which a government adjusts its level of revenue and spending in order to monitor and influence and nation's economy in a mixed economy, a part from the private sector, then is the government, which plays a very important role. The role of the government in promoting economic development came into vogue after 'The great depression' and is essentially a Keynesian prescription.

Later **Dr Parthsarthi Scheme Committee** was appointed in this regard to form various guidelines and recommendations for GAAR Policy.

Fiscal policy, essentially has a multi-dimensional role. However, in India, in the centre of indicative planning.

It has two major objectives

1. Improving the growth performance of the economy.
2. Ensuring social justice to the people.

It influences growth performance of economy mainly by influencing the resource mobilisation and influencing the efficiency of resources allocation.

Assessment of Government Deficits

Assessment of Government deficits can be done on following basis

Fiscal Deficit It is the difference between what the government earns and its total expenditure.

Fiscal deficit = Revenue receipts (Net tax revenue + Non-tax revenue) + Capital receipts – Total expenditure (Plan and Non-plan).

Revenue Deficit It is the difference between the revenue receipt on tax and non-tax side and the revenue expenditure. Revenue expenditure is synonymous with consumption and non-development.

Revenue deficit = Revenue expenditure – Revenue receipts

Budgetary Deficit It considers only the difference between the total budgeted receipt and the expenditure. It is abolished in 1997.

Primary Deficit It is the difference between the fiscal deficit and the interest payment. The concept helps in assessing the progress of the government in its fiscal control efforts.

Primary deficit = Fiscal deficit – Interest payments

Monetary Deficit It is the borrowing made from the RBI, through printing fresh currency. It is restored, when government cannot borrow from market.

Fiscal Responsibility and Budget Management (FRBM) Act, 2003

FRBM Act was passed by the Union Government to provide a legislative control over the fiscal situation of the country, which had deteriorated earlier.

The Salient Features of FRBM

- Government to annually reduce revenue deficit by 0.5% and fiscal deficit by 0.3% of GDP starting from 2004-05.
- Prohibits RBI from printing money to lend to the government.
- Elimination of revenue deficit and reducing fiscal deficit to 3% of GDP by 31st March, 2009.
- Annually present macro-economic frame- work statement, medium term fiscal policy statement and fiscal policy strategy statement.
- Under exceptional circumstances govern- ment may breach the target, but the Finance Minister will be required to make a statement in both houses of Parliament explaining the reasons.
- While some success was achieved in containing fiscal deficit in the few years after passing this law, as the fiscal deficit came down to 2.5% of GDP by 2008, due to economic slowdown post 2008, deficits have again shot up and the government has been struggling to bring them under control.

The Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) has been amended as part of the Finance Bill, 2012. It has introduced two concepts to reform the expenditure aspect of the fiscal policy.

Effective Revenue Deficit

It excludes from the conventional revenue deficit, grants for the creation of capital assets. This is an important development for the reason that while the revenue deficit of the consolidated general government fully reflects total capital expenditure incurred, in the accounts of the centre, these transfers are shown as reserve expenditure.

Therefore, the mandate of eliminating the conventional revenue deficit of the centre becomes problematic. With this amendment, the endeavour of the government under the FRBM Act would be to eliminate the effective revenue deficit.

Budget

The budget is an extensive account of the government's finances, in which revenues from all sources and expenses of all activities undertaken are aggregated.

The Finance Minister presents the union budget every year in last week of February in the Parliament that contains the Government of India's revenue and expenditure for one fiscal year, which runs from 1st April to 31st March.

Types of Budgeting

Following are the types to budget

Traditional Budget

It is a type of budget which uses the income and expenses from the previous year or month to predict the next month or year's budget. A traditional budget is easy to create since it is meant to predict a future period of finances in relation to the previous period. In most cases though, the traditional budget usually ends up being too rigid.

Performance Budget

A budget that reflects the input of resources and the output of services for each unit of an organisation. This type of budget is commonly used by the government to show the link between the funds provided to the public and the outcome of these services.

Zero-Based Budgeting

It is a method of budgeting in which all budgetary allocations are set to nil at the beginning of a financial year.

Outcome Budgeting

This type of budgeting tries to ensure that budget outlays translate into concrete outcomes.

Gender Budgeting

It came into being in 2004-05. To contribute towards the women empowerment and removal of inequality based on gender, role of budgeting has been accepted through this step.

Other Types of Budget

Following are other types of budget

Budget Deficit

A status of financial health in which expenditures exceed revenue. The term 'budget deficit' is most commonly used to refer to government spending rather than business or individual spending. When referring to accrued federal government deficits, the term 'national debt' is used.

Single Budget

When a single budget is made for all departments and programmes it is called a single budget. All items of income and expenditure are included. Single budget is used in UK and USA.

Polymer Budget

When different budgets are made for different departments, it is known as polymer budget. This system is prevalent in France, Switzerland, Germany and other countries.

Item Based Budget

In this type of budget department wise allocation is not done. This facilitates funds to be used in any head, but prior permission is to be taken.

Supplementary Budget

It is prepared for emergency situations like natural calamities, decrease in revenue etc.

Interim Budget

It is prepared in case of special situations like elections, wars, natural calamities etc. This is valid only for 6 months. Revenues are not specified and only expenditures are specified for the financial year.

Documents of Union Budget

Mainly, there are seven documents

1. Speech of Finance Minister
2. Budget Receipts
3. Budget Summary
4. Demand for Grants
5. Budget Expenditure
6. Finance Bill
7. Financial Year Statement

Agencies Involved in Budget Formulation in India

- The budget is prepared by the budget division of Department of Economic Affairs in the **Ministry of Finance** (MoF), after consulting with other ministries and the Planning Commission.
- The process majorly includes following steps which may be sequential or overlapping too.

Budget Fact File

John Mathai proposed the first Budget of Republic of India in 1950 and also the creation of Planning Commission.

Finance Minister **Morarji Desai** has given Budget for the maximum number of times (10), followed by P Chidambaram, who has given 8 budgets.

CD Deshmukh Was the first Indian Governor of RBI to have presented the Interim Budget for the year 1951-52.

Mrs Indira Gandhi Is the only woman to hold the post of the Finance Minister and to have presented the budget in her capacity as the Prime Minister of India in 1978.

The first such **mini-budget** was presented by TT Krishnamachari on 30th November, 1956, in form of fresh taxation proposals through Finance Bills, demanded by the prevailing domestic and international economic situation.

Consolidated Fund of India
(Article 266)

Subject to the provisions of Article 267 all revenues received by the Government of India through.

- all loans raised by that Government by the issue of treasury bills;
- loans or ways and means advances and
- all moneys received by that Government in repayment of loans shall form one Consolidated Fund to be entitled the **Consolidated Fund of India**.

Public Accounts of India
(Article 266 [ii])

All other public moneys received by or on behalf of the Government of India or the Government of a State shall be credited to the public account of India or the public account of the state, as the case may be.

Contingency Fund of India
(Article 267)

Parliament may by law established a Contingency Fund in the nature of an imprest to be entitled **the Contingency Fund of India** into which shall be paid from time to time such sums as may be determined by such law and the said fund shall be placed at the disposal of the President to enable advances to be made by him out of such fund for the purposes of meeting unforeseen expenditure pending authorisation of such expenditure by Parliament by law under Article 115 or Article 116.

Finance Commission

According to Article 280(1) of Constitution, the President appoints a Finance Commission after every 5 years. The Finance Commission was appointed 2 years after the implementation of the Constitution and every 5 years there after.

The President has the power to appoint a new Finance Commission even before the expiry of five years, if he deems it necessary.

The Finance Commission advise the President on following matters

- To determine the basis for the allocation of funds collected from the taxes, which are divisible between the centre and the states.

- To formulate the principles regarding the grants to the states from the centre.
- To continue the agreements made between the Government of India and the states or to recommend changes in them.
- To consider any other financial matter, in the interest of the country, on being notified by the President to do so.

On the basis of this arrangement, fourteen Finance Commissions have been set-up so far

Finance Commission	Chairman	Finance Commission	Chairman
1st (1951)	Mr KC Niyogi	8th (1982)	Mr YB Chavan
2nd (1956)	Mr KA Santhanam	9th (1987)	Mr NKP Salve
3rd (1961)	Mr AK Chanda	10th (1992)	Shri KC Pant
4th (1966)	Mr PV Rajamannar	11th (1998)	Professor AM Khusro
5th (1968)	Mr Mahaveer Tyagi	12th (2004)	Dr C Rangarajan
6th (1972)	Mr Brahmananda Reddy	13th (2008)	Dr Vijay L Kelkar
7th (1977)	Mr JM Shellat	14th (2012)	YV Reddy

Gadgil Formula

It was prepared in the 4th Five Year Plan, which provided a basis for the transfer of assitance to the states, *which is given below*

Base	Weight (%)	Base	Weight (%)
Population of the State	60	Ongoing Irrigation and Power Projects	10
Per Capita Income	10	Special Problems	10
Tax Efforts	10	**Total**	**100**

Mukherjee Formula

The Planning Commission, under the chairmanship of Pranab Mukherjee, constituted a committee to reconsider the modified Gadgil Formula of 1990.

Fourteenth Finance Commission

The Fourteenth Finance Commission constituted under the chairmanship of former RBI Governor **YV Reddy**. The five-member panel is to submit its report by 31st October, 2014. Apart from its recommendations on the sharing of tax proceeds between the centre and the states, which will apply for a 5 year period beginning 1st April, 2015, the commission has been asked to suggest steps for pricing of public utilites such as electricity and water in an independent manner and also look into issues like disinvestment.

GST compensation, sale of non-priority PSUs and subsidies. Besides, the Fourteenth Finance Commission would suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth.

Thirteenth Finance Commission

It was appointed by the President of India, under the chairmanship of **Dr Vijay L Kelkar** on 13th November, 2007. The commission was asked to make its recommendations for a period of five years from 1st April, 2010 to 31st March, 2015. The commission has submitted its report on 29th December, 2009, covering the period 2010-2015.

Recommendations of the Thirteenth Finance Commission and FRBM

The recommendations include restructuring of public finances, reducing fiscal deficit of Central and State Governments, introducing goods and services tax, sharing of union tax revenues with states etc.

Its main recommendations are as follows

- Combined debt-GDP ratio to be brought down to 68% by 2014-15. Combined debt includes debts of both Central and State Governments.
- Fiscal deficit to GDP ratio for the Central Government is targeted to be reduced to 3% and that of all State Governments in aggregate to 2.4% by 2014-15.

- Revenue deficit to GDP of centre and states is to be brought down to (–) 0.5% by 2014-15.
- The proposed share of states in the net proceeds of shareable central taxes is increased from 30.5% as per Twelfth Finance Commission recommendation to 32%.
- Overall ceilling on transfers to states is fixed at 39.5% of centres gross revenue receipts.
- Thirteenth Finance Commission has adopted the above criteria for division of central taxes like income tax, excise duty etc.

Fiscal Space

It is a relatively new term that refers to the flexibility of a government in its spending choices and more generally to the financial well-being of a government. Peter Haller (2005) defined it. "As room in a government's budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy."

Tit-Bits

- **Dark block** where more than 85% exploitation has taken place on the available underground water.
- A debit become **time-barred** after 3 years.
- Finance is called life **blood of business**.
- **Currency swap** is an instrument to manage cash flow in different currency.
- Gearing in accounting parlance refers to debt/equity.

Various Social *and* Welfare Programmes

A Social Welfare System is a Programme that provides assistance to needy individuals and families.

Some important welfare programme are as follows

Twenty Point Programme 2006

The Twenty Point Programme was intitially launched by Prime Minister Indira Gandhi in 1975 and was subsequently restructured in 1982 and again on 1986. With the introduction of new policies and programmes, it has been finally restructured in 2006, it has been in opreation at present.

The restructure Twenty Point Programme (TPP) 2006 was approved by the Cabinet. The monitoring mechanism got operationalised wef 1st April, 2007. The list of 20 Points of TPP-2006 is as under

List of 20 Points

- Garibi Hatao *(Poverty Eradication)*
- Jan Shakti *(Power to People)*
- Kisan Mitra *(Support to Farmers)*
- Shramik Kalyan *(Labour Welfare)*
- Khadya Suraksha *(Food Security)*
- Subke Liye Aawas *(Housing for All)*
- Shudh Peya Jal *(Clean Drinking Water)*
- Jan Jan Ka Swasthya *(Health for All)*
- Sabke Liye Shiksha *(Education for All)*
- Anusuchit Jaati, Jan Jaati, Alp-sankhyak evam Anya Pichhra Varg Kalyan *(Welfare of Scheduled Castes, Scheduled Tribes, Minorities and OBCs)*
- Mahila Kalyan *(Women Welfare)*
- Bal Kalyan *(Child Welfare)*
- Yuva Vikas *(Youth Development)*
- Basti Sudhar *(Improvement of Slums)*
- Paryavaran Sanrakshan evam Van Vridhi *(Environment Protection and Afforestation)*
- Samajik Suraksha *(Social Security)*
- Grameen Sadak *(Rural Roads)*
- Grameen Oorja *(Energisation of Rural Area)*
- Pichhara Kshetra Vikas *(Development of Backward Areas)*
- E-Shasan *(IT enabled e-Goverance)*

Women Empowerment Programmes

Name of the Programmes	Year of Beginning	Objectives/Descriptions
Support to Training and Employment Programme for Women (STEP)	1986	To mobilise women in small viable groups and make facilities available through training and access to credit, to provide training for skill up gradation etc.
Rashtriya Mahila Kosh-(National Credit Fund for Women)	1993	It extends micro-finance services through a client friendly and hasslefree loaning mechanism for livelihood activities, housing micro enterprises, family needs etc to bring about the socio-economic upliftment of poor women.
Swadhar	1995	To support women to become independent in spirit, in thought, in action and have full control over their lives rather than be the victim of other's actions.
Swayam Siddha	2001	At organising women into self-help groups to from a strong institutional base.
Support to Training and Employment Programme for Women (STEP)	2003-04	To increase the self-reliance and autonomy of women by enhancing their productivity and enabling them to take up income generation activities.
Ujjwala	4th December, 2007	A comprehensive scheme for prevention of trafficking with five specific components-prevention, rescue, rehabilitation, reintegration and repatriation of victims.
Dhan Laxmi	March, 2008	Conditional cash transfer scheme for the girl child to encourage families to educate girl children and to prevent child marriage.
Rajiv Gandhi Scheme for Empowerment of Adolescent Girls (RGSEAG)- 'Sabla'	19th November, 2010	It aims at empowering adolescent girls of 11 to 18 years by improving their nutritional and health status, upgradation of home skills, life skills and vocational skills.
Indira Gandhi Matritva Sahyog Yojana (IGMSY)	2010	To improve the health and nutrition status of pregnant, lactating women and infants.
National Mission for Empowerment of Women (NMEW)	2010	To achieve empowerment of women socially, economically and educationally by securing convergence of schemes.

Child Welfare Programmes

Name of the Programmes	Year of Beginning	Objectives/Descriptions
Rajiv Gandhi National Creche Scheme for the Children of Working Mothers	2006	Overall development of children, childhood protection, complete immunisation, awareness generation among parents on malnutrition, health and education.
Scheme for Welfare of Working Children in Need of Care and Protection	2008-09	Provides for non-formal education, vocational training etc to working children to facilitate, their entry/re-entry into mainstream education.
Integrated Child Protection Scheme (ICPS)	2009-10	Providing a safe and secure environment for comprehensive development of children, who are in need of care and protection as well as children in conflict with law.
Bal Bandhu Scheme	February, 2011	Provides for protection of children is areas of civil unrest. It is implemented by NCPCR with grant from PM's National Relief Fund.

Education Oriented Programmes

Name of the Programmes	Year of Beginning	Objectives/Descriptions
Mid-Day Meal Scheme (largest feeding school programme in the world).	1995	Improving the nutritional status of children in Classes I-VII in government, local body and government aided schools and EGS and AIE centres with the end objective of enabling disadvantaged and poor children to attend school regularly.
Sarva Shiksha Abhiyan (SSA)	2001	All children (6-14) complete 5 years of primary schooling by 2007; all children complete 8 years of elementary schooling by 2010; bridge all gender and social category gaps at primary stage by 2007 and at elementary education level by 2010; universal retention by 2010.
National Programme for Education of Girls at Elementary Level (NPEGEL)-important component of SSA	2003	Focused intervention to reach the 'Hardest to Reach' girls and provides for 'Model School' in every cluster with more intense community mobilisation and supervision of girls enrollment in schools.
Kasturba Gandhi Balika Vidyalayas (KGBVs) (with effect from) 1st April, 2007, merged with SSA)	2004	To set-up residential schools at upper primary level for girls belonging to SC/ST/OBC/Minority Communities. The scheme is being implemented in rural areas and urban areas with female literacy below 30% and national average respectively.
Rashtriya Madhyamik Shiksha Abhiyan (RMSA) or Scheme for Universalisation of Access for Secondary Education (SUCCESS)	March, 2009	Aims at raising the enrolment rate at secondary stage from 52.26% in 2005-06 to 75% in next 5 years by providing a secondary school within a reasonable distance of 5 km of any habitation; ensure universal access by 2017 and universal retention by 2020.
Saakshar Bharat	8th September, 2009	National Literacy Mission has been recased as 'Saakshar Bharat'. The aim is to cover all adults, is the age group of 15 and above, with its primary focus on women.
Inclusive Education for the Disabled at Secondary Stage (IEDSS)-replaced Integrated Education for Disabled Children (IEDC)	2009-10	Provides 100% central assistance for inclusive education of disabled children studying in Class IX-XII in government, local body and government-aided schools.

Health Oriented Programmes

Name of the Programmes	Year of Beginning	Objectives/Descriptions
National Rural Health Mission (NRHM)	12th April, 2005	To provide effective healthcare to rural population with special focus on 18 states with weak health indices/infrastructure; to raise publc spending on health from 0.9% of GDP to 2.3% of GDP reduction of IMA and MMR and universal access to healthcare with emphasis on women.
Janani Suraksha Yojna (JSY) a core component of NRHM	April, 2005	Focus on demand promotion for institutional deliveries in states and regions and targets lowering of MMR; it is a conditional cash transfer programme to increase births in health facilities.
Pradhan Mantri Swasthya Suraksha Yojana (PMSSY)	2010	To correct regional imbalance in tertiary healthcare and augmenting facilities for quality medical education in the country and setting up six AIIMS-like institution in Phase-1 and in Phase-2, two more AIIMS like institutions.

Employment, Poverty, Rural and Urban Development Programmes

Name of the Programmes	Year of Beginning	Objectives/Descriptions
Nehru Rozgar Yojana	1989	For providing employment to urban unemployed.
Scheme of Urban Wage Employment (SUWE)	1990	To provide wages employment after arranging the basic facilities for poor people in the urban areas, where population is less than 1 lakh.
Employment Assurance Scheme (EAS)	1993	To provide employment of at least 100 days in a year in village.
Swarana Jayanti Shahari Rozgar Yojana (SJSRY), it has been revamped with effect from April, 2009. The revamped scheme has five components: Urban Self-Employment Programme (USEP); Urban Women Self Help Programme (UWSP); Skill Training for Employment Promotion amongst Urban Poor (STEP-UP); Urban Wage Employment Programme (UWEP) and Urban Community Development Network (UCDN)	1997	To provide gainful employment to urban unemployed and under employed poor through self employment of wage employment.
Swaranajayanti Gram Swarozgar Yojana (SSGSY), it replaced IRPD, DWCRA, Ganga Kalyan Yojana (1997). Million Wells Scheme (1989) and Supply Improved Tolls kits to Rulral Artisans (1992)	1st April, 1999	For eliminationg rural property and unemployment and promoting self-employment through establishing micro enterprises in rural areas. Targets to cover 50% SCs/ STs. 40% women, 15% minorities and 3% disabled.
Pradhan Mantri Gramodya Yojana (PMGY)	2000	Focus on village level development in 5 critical areas. *i.e,.* primary health, primary education, housing, rural roads and drinking water and nutrition with the overall objective of improving the quality of life of people in rural areas.
Annapurna Scheme	2000	To ensure food security for all, create a hunger free India in the next five serve the poorest of the poor in rural and urban areas.
Food Work Programme	2001	To give food through wage employment in the drough affected areas in 8 states. Wages are paid by the State Governments, partly in cash and partly in foodgrains.
Jai Praksah Narayan Rozgar Guarantee Yojana (JPNRGY)	Proposed in 2002-03 Budget	Employment guarantee is must poor districts.
MGNREGS (Mahatma Ghandhi National Rural Employment Guarantee Scheme). The scheme was notified throughout the country with effect from 1st April, 2008. Renamed as MGNREGS from October 2, 2009. SGRY and Food for Work Programme merged into it.	2nd February, 2006	It aims at enhancing livelihood security of households in rural areas of the country by providing at least 100 days on guaranteed wage employment in a financial year to every household, whose adult mambers volunteer to do unskilled manual work. It also mandates 33% participation for women The primary objective of the scheme is to augment wage employment.
Prime Minister's Employment Generation Programme (PMEGP)	2008	To generate employment opportunities in rural as well as urban areas through setting up of self-employment ventures/projects/micro enterprises.
Rajeev Awas Yojana	2010	To make India shine free in next 5 years.
Nirmal Bharat Programme	2012	To eradicate practice of open defacation by 2020
Direct Benefit Transfer	2013	Anti-Poverty Programme, aimed to transfer subsidies directly to the people living below poverty line.

Question Bank

1. Money Laundering normally involves **[BOB 2008]**
   - *(1)* placement of funds
   - *(2)* layering of funds
   - *(3)* integration of funds
   - *(4)* All of the above
   - *(5)* None of the above

2. As we all know Government of India collects tax revenue on various activities in the country. Which of the following is a part of the tax revenue of the government? **[BOB 2008]**

   I. Tax on Income
   II. Tax on Expenditure
   III. Tax on Property or Capital Asset
   IV. Tax on Goods and Services

   Select the correct answer using the codes given below
   - *(1)* I and III
   - *(2)* II and IV
   - *(3)* II, III and IV
   - *(4)* All of these
   - *(5)* None of these

3. Union budget is always presented first in **[BOI PO 2008]**
   - *(1)* the Lok Sabha
   - *(2)* the Rajya Sabha
   - *(3)* joint session of the Parliament
   - *(4)* meeting of the Union Cabinet
   - *(5)* the State Assemblies

4. Many times we read a term 'ECB' in financial newspapers. What is the full form of ECB? **[BOI PO 2008]**
   - *(1)* Essential Commercial Borrowing
   - *(2)* Essential Credit and Borrowing
   - *(3)* External Credit and Business
   - *(4)* External Commercial Borrowing
   - *(5)* None of the above

5. As we all know, the Ministry of Finance every year prepares the Union Budget and presents it to the Parliament. Which of the following is/are the elements of the Union Budget? **[BOI PO 2008]**

   I. Estimates of revenue and capital receipts.
   II. Ways and means to raise the revenue.
   III. Estimates of expenditure

   Select the correct answer using the codes given below
   - *(1)* Only I
   - *(2)* Only II
   - *(3)* Only III
   - *(4)* All of these
   - *(5)* None of these

6. Which of the following is not a tax/duty levied by the Government of India? **[BOI PO 2008]**
   - *(1)* Income Tax
   - *(2)* Education Cess
   - *(3)* Service Tax
   - *(4)* Customs Duty
   - *(5)* Toll Tax

7. Fiscal deficit is **[BOB 2008]**
   - *(1)* total income less government borrowing
   - *(2)* total payments less total receipts
   - *(3)* total payments less capital receipts
   - *(4)* total expenditure less total receipts excluding borrowing
   - *(5)* None of the above

8. As we all know India has a three-tier structure of tax administration. There are taxes levied by Central Government, State Governments and Local Governments. Which of the following taxes is levied by the local government bodies? **[Corporation Bank 2009]**
   - *(1)* Value Added Tax
   - *(2)* Stamp Duty
   - *(3)* Service Tax
   - *(4)* Land Revenue
   - *(5)* Tax on water supply and drainage etc

9. The amount of which of the following reflects the overall budgetary position of the Government of India at a given time? **[Indian Overseas Bank 2009]**
   - *(1)* Revenue deficit
   - *(2)* Total amount of income tax collected
   - *(3)* Capital deficit
   - *(4)* Fiscal deficit
   - *(5)* None of these

10. Which of the following services provided by a bank in India is not liable for Service Tax as per existing laws? **[Indian Overseas Bank 2009]**
    - *(1)* Safe deposit lockers
    - *(2)* Merchant banking services
    - *(3)* Credit cards
    - *(4)* Discount earned on certain discounted bills
    - *(5)* None of the above

11. The maximum amount of the total revenue earned by the Government of India comes from **[Indian Overseas Bank 2009]**

(1) Income Tax (2) Customs Duty
(3) Excise Duty (4) Value Added Tax
(5) Corporate Tax

12. Which of the following commissions set-up by the President of India decides the distribution of tax incomes between the Central and State Governments? **[United Bank of India 2009]**

(1) Central Law Commission
(2) Pay Commission for Government Employees
(3) Administrative Reforms Commission
(4) Planning Commission
(5) Finance Commission

13. Service Tax was introduced in India for the first time in the year **[United Bank of India 2009]**

(1) 1990-91 (2) 1991-92 (3) 1994-95
(4) 1980-81 (5) 2000-01

14. Which of the following is/are the components of the Fiscal Deficit? **[United Bank of India 2009]**

I. Budgetary Deficit
II. Market Borrowing
III. Expenditure made from Pradhan Mantri Rahat Kosh

Select the correct answer using the codes given below

(1) Only I (2) Only II
(3) Only III (4) All of these
(5) None of these

15. Which of the following is/are the Non-Tax Revenue components of the Union Budget of India? **[RBI 2009]**

I. Customs Duties II. Interest Receipts
III. Dividends and Profits

Select the correct answer using the codes given below

(1) Only I (2) Only II
(3) II and III (4) Only IV
(5) All of these

16. Which of the following taxes is not levied by the Union Government? **[United Bank of India 2009]**

(1) Customs (2) Corporate Tax
(3) Land Revenue (4) Income Tax
(5) Surcharge on Income Tax

17. As we all know, Government of India pays special emphasis on the management of Fiscal Deficit. What is Fiscal Deficit? **[RBI 2009]**

(1) The gap between projected or estimated GDP and actual GDP
(2) The gap between the total number and value of the currency notes issued by the RBI uptill now over the number and value of those which are in actual circulation
(3) The gap between the actual borrowings of the Government of India and the expected expenditure for which provision is made in the budget
(4) Excess of government's disbursement comprising curent and capital expenditures over its current receipts (tax/non-tax receipts)
(5) None of the above

18. Transport of goods by which of the following is free from levy of the Service Tax? **[Indian Bank 2010]**

(1) Indian railways
(2) Shipping companies owned by NRIs
(3) All private road transport companies
(4) By the Transport Corporation of India in its own special containers
(5) None of the above

19. Which of the following is a measure of fiscal reforms Government of India has adopted?

(1) Bringing down fiscal deficit to a particular level by an Act of Law
(2) Fixing higher rate of growth
(3) Allocation of more funds to job-oriented schemes
(4) Allocation of more funds to provide education to children who are 6-14 years of age
(5) None of the above

20. Which of the following policies is known as Annual Policy Statement? **[Corporation Bank 2011]**

(1) Annual budget of Central Government
(2) Credit and monetary policy of RBI
(3) Foreign trade policy of DGFT
(4) Regulations issued by SEBI
(5) None of the above

21. Which of the following is called 'Robinhood Tax' and was in news during recent summit of G20 nations? **[RBI 2011]**

(1) Excise Duty
(2) VAT
(3) Goods and Services
(4) Tobin Tax
(5) None of the above

22. As we all know, Government of India collects tax revenue on various activities in the country. Which of the following is a part of the tax revenue of the government?

I. Tax on Income **[Corporation Bank 2011]**
II. Tax on Expenditure
III. Tax on Property or Capital Asset
IV. Tax on Goods and Services

Select the correct answer using the codes given below

(1) I and III
(2) II and IV
(3) II, III and IV
(4) All of the above
(5) None of the above

23. Many times we read about 'Hawala' transactions in newspapers. Hawala, in India, is prohibited under the provision of which of the following Acts? **[Corporation Bank 2011]**

(1) Fiscal Responsibility and Budget Management Act
(2) Banking Regulation Act
(3) Financial Action Task Force Act
(4) Foreign Exchange Management Act
(5) None of the above

24. Goods and Services Tax (GST) would replace which of the following taxes levied at present?

(1) Income Tax **[Indian Overseas Bank 2011]**
(2) Corporate Tax
(3) Capital gains Tax
(4) Value Added Tax (VAT)
(5) All of the above

25. Which of the following bills presented in the Parliament will bring some changes in the existing tax regime? **[Corporation Bank 2011]**

(1) Direct Taxes Code (DTC) Bill
(2) Foreign Exchange Management Regulatory Bill
(3) Companies Act Bill
(4) Salaries and Perks for MPs Bill
(5) Finance Bill 2010-11

26. Expand the term FRBM **[Indian Overseas Bank 2011]**

(1) Financial Responsibility and Business Management
(2) Fiscal Responsibility and Business Management
(3) Financial Responsibility and Budget Management
(4) Fiscal Responsibility and Budget Management
(5) Formal Responsibility and Business Management

27. Which of the following is/are the Non-Tax Revenue components of the Union Budget of India? **[Andhra Bank 2011]**

I. Custom Duties II. Interest Receipts
III. Dividend and Profits

Select the correct answer using the codes given below

(1) I and II *(2)* Only II
(3) II and III *(4)* Only III
(5) All of these

28. Which of the following organisations/agencies is actively involved in drafting the Union Budget of India? **[Andhra Bank 2011]**

(1) The Planning Commission
(2) The Comptroller and Auditor General
(3) Administrative Staff of the Lok Sabha
(4) Ministry of Finance
(5) Ministry of Rural Development

29. Which of the following is the target fixed for maintaining fiscal deficit in the Union Budget of India? **[Allahabad Bank 2011]**

(1) 4.6% of total budget *(2)* 4.6% of GDP
(3) 3.6% of total budget *(4)* 3.6% of GDP
(5) None of these

30. What is a fiscal deficit? **[Punjab and Sindh Bank 2011]**

(1) It is a gap between the values of exports and imports
(2) It is a gap between exports and imports minus external borrowings
(3) It is a gap between total expenditure and total receipts of the government
(4) It is a gap between total receipts minus external borrowings
(5) None of the above

31. Which one of the following items will be subsumed under the Goods and Services Tax of India?
    (1) Additional excise duties
    (2) Special additional custom duties
    (3) Additional surcharges and cesses
    (4) All of the above
    (5) None of the above

32. Which one of the following deficits deducted the interest payments to internal and external debt from the fiscal deficit to calculate the deficit of an economy?
    (1) Revenue deficit (2) Twin deficit
    (3) Primary deficit (4) Budgetary deficit
    (5) None of these

33. A Usance Bill when presented for acceptance has to be accepted/dishonored within
    (1) 24 hours (2) 36 hours
    (3) 48 hours (4) 60 hours
    (5) None of these

34. Which of the following is/are different categories of inflation?
    I. Open and suppressed
    II. Cost push
    III. Demand pull

    Select the correct answer using the codes given below
    (1) Only I (2) I and II
    (3) II and III (4) All of these
    (5) None of these

35. Lot of discussion is going on these days on the issue of 'Participatory note' (P Notes) used in financial sector/money market. What is participatory note?
    I. It is nothing but another name of the banking operation by which banks exchange Indian rupee into US dollars without depositing a single rupee in the account of the party who are NRIs. The entire operation is carried out by the banks solely on the basis of the credit and good, will of the NRI party.
    II. It is an off shore derivative instrument used by overseas buyers/investors who buy shares of Indian companies listed in Indian stock exchange anonymously.
    III. It is nothing but a type of undertaking given to the banks that they should continue investing money in stock markets on behalf of the NRIs and in case the market crashes NRI's will make the losses good without delay.

    Select the correct answer using the codes given below
    (1) Only I
    (2) Only II
    (3) Only III
    (4) All of the above
    (5) None of the above

36. 'Dark Block' is an area
    (1) where literacy rate is below 15%
    (2) where people below the poverty line are more than 90%
    (3) where underground source of water is not available
    (4) where more than 85% exploitation has taken place on the available underground water
    (5) None of these above

37. 'Gearing' in accounting parlance refers to
    (1) break even sales (2) current ratio
    (3) debt/equity (4) DSCR
    (5) None of these

38. 'Hedging' denotes
    (1) 'protecting against fluctuations/ uncertainty risk in forex markets
    (2) credit risk assessment in respect of advance
    (3) speculative buying/selling of foreign currency
    (4) capital risk assessment in respect of advances
    (5) None of the above

39. What is an Indian depository receipt?
    (1) A deposit account with a Public Sector Bank
    (2) A deposit account with any of depositories in India
    (3) An instrument in the form of depository receipt created by an Indian depository against underlying equity shares of the issuing company
    (4) All of the above
    (5) None of the above

40. Fiscal deficit is
(1) total income less government borrowing
(2) total payments less total receipts
(3) total payments less capital receipts total expenditure less
(4) total receipts excluding borrowing
(5) None of the above

41. Which of the following correctly describes what sub-prime lending is?
I. Lending to the people with less than ideal credit status.
II. Lending to the people who are high value customers of the banks.
III. Lending to those who are not a regular customer of a bank.

Select the correct answer using the codes given below
(1) Only I
(2) Only II
(3) Only III
(4) All of these
(5) None of these

42. Which one of the following is the major source of the revenue to state Government in India?
(1) Agriculture income tax
(2) Professional tax
(3) General sales tax
(4) Stamp duties
(5) All of the above

43. Which of the following is not included in government securities?
(1) Promissory notes
(2) Debentures
(3) Bearer bonds
(4) All of the above
(5) None of the above

44. Which of the following statements is incorrect?
(1) VAT is the neutral tax since it does not influence the organisation of production
(2) VAT is easier to enforce than the sales tax to impose through cross-checking
(3) GST consists of three components such as Central-GST, State-GST and Local-GST
(4) Central -GST and State -GST will apply to all transaction of goods and services
(5) The Union Government of India passed the General Sales Tax in 1956

45. Inflation is caused by
(1) increase in supply of goods
(2) increase in cash with the government
(3) decrease in money supply
(4) increase in money supply
(5) All of the above

46. Which one of the following duties/taxes is the major component of the customs duties in the Indian Economy?
(1) Import duties
(2) Export duties
(3) Estate duties
(4) 1 and 2
(5) None of these

47. Which one of the following is refer to the use of taxation, public expenditure and the management of public debt in order to achieve certain specified objectives?
(1) Fiscal policy
(2) Trade policy
(3) Revenue policy
(4) None of these
(5) All of these

48. 'Caused Bill of Lading' is one which indicates
(1) no defects in packaging or condition of goods
(2) defective condition of package
(3) no documents attached to it
(4) complete documents attached to it
(5) None of the above

49. Sub-prime refers to
(1) lending done by banks at rates below PLR
(2) funds raised by the banks at sub libor rates
(3) group of banks which are not rate as prime banks as per banker's almanac
(4) lending done by financing institutions including banks to customers not meeting with normally required credit appraisal standards
(5) None of the above

50. Currency Swap is an instrument to manage
(1) currency risk
(2) interest rate risk
(3) currency and interest rate risk
(4) cash flows in different currency
(5) None of the above

51. A country is said to be in a debt trap if
(1) it has to borrow to make interest payments on outstanding loans
(2) it has to borrow to make interest payments on standing loans

(3) it has been refused loans or aid by creditors abroad

(4) the world bank charges a high rate of interest on outstanding as well as new loans

(5) it has to borrow to make interest payments on all types of loan

52. The Goods and Services Tax (GST) proposed to be introduced covers taxes like
   (1) Trade/Sale Tax
   (2) Service Tax
   (3) Service, Excise
   (4) Service, Excise,VAT
   (5) All of the above

53. A debt becomes time-barred after
   (1) one year
   (2) two and a half years
   (3) three years
   (4) five years
   (5) None of these

54. The purpose of providing depreciation on the bank's property is
   (1) to reduce the profit of the bank
   (2) to make usual allowances for annual wear and tear
   (3) to enable the bank to recover this amount from the Reserve Bank of India
   (4) to strengthen the financial position of the bank
   (5) None of the above

55. Many a times we read about rural indebtedness in various newspapers/ magazines. What are the main causes of the rural indebtedness?
   I. Poverty.
   II. Inability to repay the loans.
   III. Zamindari system which prevents farmers to own the land.

   Select the correct answer using the codes given above
   (1) Only I
   (2) Only II
   (3) Both I and II
   (4) All of these
   (5) None of these

56. Among which of the following is related to bank risks?
   (1) Deposits
   (2) Bank funds
   (3) NPA
   (4) All of these
   (5) None of these

57. Which among the following is called life blood of business?
   (1) Marketing
   (2) Product
   (3) Finance
   (4) Staff
   (5) None of these

58. Consider the following statements in the context of governance
   I. Encouraging foreign direct investment inflows
   II. Privatisation of higher educational institutions
   III. Down–sizing of bureaucracy

   Which of the above can be used as measures to control the fiscal deficit in India?
   (1) Only I
   (2) Only II
   (3) Only III
   (4) All of the above
   (5) None of the above

59. 'Sub prime lending' is a term applied to the loans made to
   (1) these borrowers who do not have a good credit history
   (2) those who wish to take loan against the mortgage of tangible assets
   (3) those who have a good credit history and are known to bank since 10 years
   (4) Both 1 and 2
   (5) None of the above

60. In banking parlance, 'Sub-Prime' refers to
   (1) landing by banks at rates below PLR
   (2) funds raised by banks at sub-libor rates
   (3) group of banks which are not rated as prime banks as per bankers almanac
   (4) lending done by banks/FIs to customers not meeting with normally required credit appraisal standards
   (5) None of the above

61. Securitisation is
   (1) non-performing loans are acquired from banks and financial institutions at a discounted value and security receipts issued to them so that these loans are removed from their balance sheet enabling them to reduce the provision in respect of such loans and improve profitability

(2) converting the illiquid loans of banks and financial institutions by securitisation companies into tradable securities, after they are acquired and sold to the investors
(3) a process of acquisition of non-performing loans from banks by a securitisation company and covert them into tradable securities and sold to the investors
(4) All of the above
(5) None of the above

62. E-stamping denotes
(1) replacement of the traditional system of affixing postal stamps in postal services
(2) doing away with the need of banks to brand stamps on negotiable instruments
(3) sending message through e-mail, where no stamping is necessary
(4) replacing stamp duty required for payment of registration of properties and documents
(5) None of the above

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1. (4)	2. (3)	3. (1)	4. (4)	5. (4)	6. (5)	7. (4)	8. (5)	9. (4)	10. (4)
11. (5)	12. (5)	13. (3)	14. (4)	15. (3)	16. (3)	17. (4)	18. (5)	19. (1)	20. (2)
21. (4)	22. (3)	23. (4)	24. (4)	25. (1)	26. (4)	27. (3)	28. (3)	29. (2)	30. (5)
31. (4)	32. (3)	33. (3)	34. (3)	35. (2)	36. (4)	37. (3)	38. (1)	39. (3)	40. (4)
41. (1)	42. (3)	43. (2)	44. (3)	45. (4)	46. (1)	47. (3)	48. (2)	49. (4)	50. (4)
51. (2)	52. (4)	53. (3)	54. (2)	55. (4)	56. (3)	57. (3)	58. (4)	59. (1)	60. (4)
61. (4)	62. (2)								

Chapter

10

International Financial Organisations

International Monetary Fund (IMF)

The International Monetary Fund was conceived in July, 1944 during the United Nations Monetary and Financial Conference. The representatives of 45 governments met in the Mount Washington Hotel in the area of Bretton Woods, New Hampshire, United States, to agree on a framework for international economic co-operation. The IMF was formally organised on 27th December, 1945, when the first 29 countries signed its Articles of Agreement.

Main Objectives of IMF

- To promote international monetary cooperation.
- To facilitate the expansion of international trade.
- To ensure stability to foreign exchange rates.
- To reduce disequilibrium in the international balance of payments of member countries.
- To promote capital investment in backward and underdevelopment countries.
- To assist in the establishment of a multinational system of payments in respect of current transactions between the member countries.
- To secure multilateral convertibility (*i.e.*, to convert the currency of any member into the currency of any other member).

Member Nations of IMF

Presently, the IMF has 188 member countries. It is a specialised agency of the United Nations, but has its own charter, governing structure and finances. Its members are represented through a quota system broadly based on their, relative size in the global economy.

At international level, various financial institution have been established to facilitate the investment of capital for productive purposes and to promote long ranged balanced growth of international trade. To achieve greater fund and technology transfer.

Apart from the major international institutions ASEAN, SAARC etc are the important regional institutions which promote such activities.

India and IMF

- India is a founder member of IMF.
- Finance Minister is the ex-officio governor or the board of the governors of the IMF. RBI governor is the alternate governor at the IMF.

Allotted Quotas for the Members Country (in descending order)

Rank	Country	Quotas (in percentage)
1.	USA	17.69
2.	Japan	6.56
3.	Germany	6.12
4.	France	4.51
5.	UK	4.51
6.	China	4.00
7.	Italy	3.31
8.	Saudi Arabia	2.93
9.	Canada	2.67
10.	Russia	2.50
11.	India	2.44

Special Drawing Rights (SDRs)

SDR, is an international reserve asset, created by the IMF in 1969, to supplement its member countries official reserves. Its value is based on a basket of four key international currencies (US Dollar, Japanese Yen, Pound Sterling, Euro) and SDRs can be exchanged for freely usable currencies.

World Bank

Since inception in 1994 the World Bank has expanded from a single institution to a closely associated group of five development institutions. Their mission evolved from the International Bank for Reconstruction and Development (IBRD) as facilitator of post-war reconstruction and development to the present-day mandate of world wide poverty alleviation in close coordination with the International Development Association and other Members of the World Bank Group.

Established	July 1944
Head Quarter	Washington
Membership	188 countries (IBRD), 172 countries (IDA)
President	Jim Yong Kim

Objectives of World Bank

Its main objective is to provide financial help for the economic development and reconstruction of member nations.

Other objectives includes

- To put the world on the path of development
- To reduce the number of poor in world
- To encourage the international finance.

Motives of World Bank

Following are the main motives of World Bank are as follows

- Investing in people, particularly through basic education and health.
- Focusing on social development, inclusion governance and institution-building as key elements of poverty reduction.
- Strengthening ability of the governments to deliver quality services, efficiency and transparency.
- Protecting the environment.
- Supporting and encouraging private business development.
- Promoting reforms that create stable macronomic environment which is conductive of long-term investment.

World Bank Group

The World Bank Group is a family of five international organisation that make leveraged loan to poor countries.

Its five organisations are as follows

1. International Bank for Reconstruction and Development (IBRD).
2. International Development Association (IDA).
3. International Finance Corporation (IFC).
4. Multilateral Investment Guarantee Agency (MIGA).
5. International Centre for Settlement of Investment Disputes (ICSID).

International Bank for Reconstruction and Development (IBRD)

Established	1944
Association with UN	1947
Members	188
Vision	Provides loan to developing countries, facilitates trade, capital investment.
Values	Poverty reduction, assistance in development

International Development Association (IDA)

Establishment	1960
Members	172
Vision	IDA financed operations deliver positive change among poorest nations of world. Lends money on concessional terms.
Values	Helps the poorest countries, single largest donor of funds to under developed nations.

International Finance Corporation (IFC)

Establishment	July, 1956
Association with UN	20th February, 1957
Members	184 Countries
Vision	People should have the opportunity to escape poverty and improve their lives
Values	Excellence, commitment, integrity, team work and diversity

Multilateral Investment Guarantee Agency (MIGA)

Establishment	in 1988
Members	177
Vision	Promotes foreign direct investment into developing countries by insurance, technology etc.
Values	Insuring against risk, mediating disputes

International Centre for Settlement of Investment Disputes (ICSID)

Establishment	1966
Members	159
Vision	Handles legal disputes between international investors. Helps administer the dispute resolution
Values	facilitates arbitration, dispute resolution

IMF Vs World Bank

Similarities

- Both are Bretton Wood heirs.
- Both were established to promote economic co-operation.

Differences

- World Bank provides long-term loans for promoting balanced economic development.
- IMF provides short-term loans to member countries for climinating BOP disequilibrium.

General Agreement on Tariffs and Trade (GATT)

It was a multilateral agreement regulating international trade. According to its preamble, its purpose was the '*substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis*'. It was negotiated during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiationg governments to create the International Trade Organisation (ITO).

GATT was signed in 1947 and lasted until 1994, when it was **replaced by the World Trade Organisation in 1995**. The original GATT text (GATT 1947) is still in effect under the WTO frame work subject to the modifications of GATT 1994.

World Trade Organisation (WTO)

It is the only global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their Parliaments. The goal is to help producers of goods and services, exporters and importers conduct their businesses smoothly.

Established	1st January, 1955
Headquarters	Geneva, Switzerland
Membership	160
Created by	Uruguay Round negotiation (1986-94)

Functions of WTO

- Administering WTO trade agreements.
- Forum for trade negotiations.
- Handling trade disputes.
- Monitoring national trade policies.
- Technical assistance and training for developing countries. Co-operation with other international organisations.

WTO and India

India is the foundation member of WTO. India can secede from WTO at any time as per its will.

- India in recent years has emerged as the leader of developing countries.
- India due to its membership has influenced many economic decisions of WTO.
- Due to patent laws under WTO agreements, Indian medicines and seeds prices have gone up.
- WTO membership has led to less members of bilateral trade agreements for India.
- Being a member of WTO, India become more attractive to foreign investors has helped India to attract foreign investments.
- Due to WTO member, India's foreign trade, in both goods and services has seen significant growth.

There are a total of 160 member countries in the WTO, with Russia and Vanuatu being new members as of 2012 of the original GATT members, Syria and the SFR Yugoslavia have not rejoined the WTO.

Other International Financial Organisations

These are as follows

United Nations Industrial Development Organisation (UNIDO)

UNIDO is the specialised agency of the United Nations that promotes industrial development for poverty reduction, inclusive globalisation and environmental sustainability.

The mandate of the United Nations Industrial Development Organisation (UNIDO) is to promote and accelerate inclusive and sustainable industrial development in developing countries and economies in transition.

Bank for International Settlements (BIS)

The mission of the Bank for International Settlements (BIS) is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.

The head office of BIS is in Basel, Switzerland and there are two representative offices; in the Hong Kong Special Administrative Region of the People's Republic of China and in Mexico City.

Established on 17th May, 1930, the BIS is the world's oldest international financial organisation.

World Intellectual Property Organisation (WIPO)

It is one of the specialised agencies of United Nations and established in 1967. Its headquarters in Geneva, Switzerland. WIPOs mission is to lead the development of innovative, creative intellectual property system which benefits all.

Food and Agriculture Organisation (FAO)

It is an agency of the United Nations that leads international efforts to defeat hunger. Serving both developed and developing countries. The World headquarters of FAO are located in Rome, in the former seat of the Department of Italian East Africa.

International Labour Organisation (ILO)

The ILO was founded in 1919, in the wake of a destructive war, to pursue a vision based on the premise that universal, lasting peace can be established only if it is based on social justice. The ILO became the first specialised agency of the UN in 1946. 185 of the 193 UN member states are members of the ILO.

International Fund for Agricultural Development (IFAD)

It is a specialised agency of the United Nations, was established as an International Financial Institution in 1977 as one of the major outcomes of the 1974 World Food Conference.

Asian Development Bank (ADB)

Asian Development Bank is a regional development bank. ADB was modelled closely on the World Bank and has a similar weighted voting system where goods are distributed in proportion with members capital subscription.

Headquarters	Manila, Philipines
Members	67 (48 area from Asia and Pacific and rest of 19 from outside)
Establishment	22nd August, 1966

Objectives of ADB

- The bank aims at fighting poverty in Asia and Pacific. The bank gives special attention to the needs of the smaller or less-developed countries and priority to regional, sub-regional and national projects and programmes. ADB was basically founded to promote the social and economic progress of the Asian and Pacific region.
- It facilitates economic development of Asian countries primarily by lending of funds for development purposes. It is modeled closely on the World Bank and functions in a similar manner.

Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

It is an international organisation involving a group of countries in South Asia and South East Asia. On 6th June 1997, sub-regional grouping was formed in Bangkok and given the name BIST-EC (Bangladesh, India, Sri Lanka and Thailand Economic Cooperation). Later, Myannmar,Nepal and Bhutan became its full member,thus its name became BIMSTEC. BIMSTEC has fourteen priority sectors cover all areas of cooperation.

SAARC Preferential Trading Arrangement (SAPTA)

In December 1991, the Sixth Summit held in Colombo approved the establishment of an Inter-Governmental Group (IGG) to formulate an agreement to establish a SAARC Preferential Trading Arrangement (SAPTA) by 1997. Given the consensus within SAARC, the Agreement on SAPTA was signed on 11th April 1993 and entered into force on 7th December 1995 well in advance of the date stipulated by the Colombo Summit. The Agreement reflected the desire of the Member States to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions.

Principles underlying SAPTA

- Overall reciprocity and mutuality of advantages so as to benefit equitably all Contracting States, taking into account their respective level of economic and industrial development, the pattern of their external trade and trade and tariff policies and systems.
- Negotiation of tariff reform step by step, improved and extended in successive stages through periodic reviews.
- Recognition of the special needs of the Least Developed Contracting States and agreement on concrete preferential measures in their favour.
- Inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.

South Asian Free Trade Area (SAFTA)

It is an agreement reached on 6th January, 2004 at the 12th in Islamabad, Pakistan. It created a free trade area of 1.6 billion people in Bangladesh, Bhutan, India Maldives, Nepal, Pakistan and Sri Lanka (as of 2011, the combined population is 1.8 billion people). The seven foreign ministers of the region signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by the year 2016.

Principles underlying SAFTA

- Overall reciprocity and mutuality of advantages so as to benefit equitably all Contracting States, taking into account their respective level of economic and industrial development, the pattern of their external trade and trade and tariff policies and systems.
- Negotiation of tariff reform step by step, improved and extended in successive stages through periodic reviews.
- Recognition of the special needs of the Least Developed Contracting States and agreement on concrete preferen- tial measures in their favour.
- Inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.

Shanghai Cooperation Organisation (SCO)

It is a Eurasian political, economic and military organisation which was founded in 2001 in Shanghai by the leaders of China, Kazakhstan, Kyrgyzstah, Russia, Tajikistan and Uzbekistan. Except for Uzbekistan, the other countries had been members of the Shanghai Five, founded in 1996; after the inclusion of Uzbekistan in 2001, the members renamed the organisation.

The SCO has established relations with the United Nations, where it is an observer in the General Assembly, the European Union, Association of South-East Asian Nations (ASEAN), the Commonwealth of Independent States and the Organisation of Islamic Cooperation.

ASEAN–India Free Trade Area (AIFTA)

It is a free trade area among the ten member states of the Association of Southeast Asian Nations (ASEAN) and India. The initial framework agreement was signed on 8th October, 2003 in Bali, Indonesia and the final agreement was on 13th August 2009.

The free trade area came into effect on 1st January, 2010. India hosted the latest ASEAN-India Commemorative Summit in New Delhi on 20th-21st December, 2012. As of 2011-12, two-way trade between India and ASEAN stood at US $ 79 billion.

Various Trade Blocks

G-77

The G-77 was set-up on 15th June, 1964 by 77 developing countries. Its first ministerial meeting was held at Algiers, Algeria in 1967.

G-77 is the largest coalition of the third world nations. The membership of G-77 has increased to 133 countries, the original name has been retained because of its historic significance.

Objectives

- The G-77 provides a mean to developing countries to articulate and promote collective economic interests, enhance their joint negotiating capacity on economic issues in the international flora and promote economic and technical co-operation among developing countries.
- The office of the chairman of the group is based in New York.
- The chairmanship rotates on a regional basis between Africa, Asia, Latin America and the caribbean and is held for 1 year.

G-8

The group of B (G-8) was a name of a foreign for one government of a group of 8 leading industrialised countries. Namely, Canada, France, Germany, Italy, Japan, UK, USA and the Russia. Earlier it was known as G6; after addition of Canada it became G7. In 1997, Russia was made a member and the group of seven became G-8.

The group of eight can be traced back to November, 1975, when the French President, Velary Giscard and Chancellor of West Germany Helmut Schmidt invited Britain, USA, Japan and Italy for a meeting at the Chateau, France, to discuss the economic crisis resulting from rise of oil prices.

Objectives

- The G-8 aims at discussing and evolving strategies to deal with the major economic and political international issues
- There is no formal institutional structure or permanent secretariat. Heads of state of member-nations and EU representatives hold meetings annually.

G-15

The Group of 15 (G-15) is an informal forum set up to foster cooperation and provide input for other international group, such as the WTO and the group of 8.

Headquarters	Geneva, Switzerland
Members	17
Establishment	1989

Objectives

- To act as catalyst for greater co-operation between leading developing countries.
- To harness the considerable potential for greater and mutually beneficial co-operation among developing countries.
- To serve as a forum for regular consultations among developing countries and identify and implement new and concrete schemes for South-South Co-operation and mobilise wider support for them.

G-33

It is a group of developing countries that co-ordinate on trade and economic issues. It was created in order to help a group of countries that were all facing similar problems. The G-33 has proposed special rules for developing countries at WTO negotiations, like allowing them to countinue to restrict access to their agricultural markets.

G-20

The Group of 20 Finance Minister and Central Bank Governor also known as (G-20) is a group of Finance Minister and Central Bank Governor from 20 major economies.

- Formally established on 26th September, 1999, when the Finance Ministers of the G-7 announced the formation of the G-20 in Washington DC to establish an informal mechanism for dialogue among systematically important countries, including the industrialised countries and the big emerging markets within the framework of the Bretton Woods Institutional System.
- The inaugural meeting of the G-20 was held in Berlin on 15th-16th December, 1999.

Objectives

- The G-20 has the objectives of promoting discussion on and study and review of policy issues among industrialised countries and big emerging markets with a view to enhancing international financial stability.
- The chair rotates between members selected from different five regional grouping of countries each year.

Group of 24 (G-24)

Headquarters	Belgrade (Serbia)
Members	24
Establishment	1971

Objectives

- To co-ordinate the positions of developing countries on international monetary and development finance issues and to ensure that their interests are adequately represented in negotiations on international monetary matters.

E9

The E9 is a forum of nine countries, which was formed to achieve the goals of UNESCO's Education For All (EFA) in initiative.

The E stands for education and the '9' represents the following nine countries Bangladesh, Brazil, China, Egypt, India, Indonesia, Mexico, Nigeria and Pakistan. E-9 Initiative has become a forum for the countries to discuss their experiences related to eduction, exchange best practices and monitor EFA-related progress.

IBSA

Members	3 (India, Brazil, South Africa)
Establishment	2003 by Brasilia Declaration

Objectives

- IBSA was formed to promote South-South co-operation.
- It aims at increasing the trade opportunities among the 3 countries and facilitating the trilateral exchange of information, technologies and skills to complement each other's strength.
- To promote international poverty alleviation and equitable development.

Common Market for Eastern and Southern Africa (COMESA)

Headquarters	Lusaka, Zambia
Members	20 (Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, South Sudan, Sudan, Swaziland, Uganda, Zambia, Zimbabwe)
Establishment	December, 1994

Objectives

- To co-operate in developing natural and human resources for the welfare of people.
- The main focus is on the formation of a large economic and trading unit and to bring economic prosperity through regional integration.

The Southern Common Market (MERCOSUR)

Headquarters	Montevideo, Uruguay
Members	5 (Brazil, Argentina, Paraguay, Uruguay, Venezuela).
Official Language	Portuguese, Guarani, Spanish
Establishment	1991 (by Treaty of Asuncion)

Objectives

- Free transit of produced goods, services and factors among member states.
- Fixing of a Common External Tariff (CET) and adoption of a common trade policy in order to ensure free competition between member states.

Brazil, Russia, India, China and South Africa (BRICS)

Members	5 (Brazil, Russia, India, China and South Africa)
Establishment	2009
Term Coined by	Jim O'Neil of Goldman Sachs coined the Acronym BRIC in 2001.

Objectives

- To boost cooperation among member states and take steps to jointly respons to common challenges.
- To play a key role in reforming the world management systems and contribute towards maintaining economic growth, peace and security.

Asia-Pacific Economic Co-operation (APEC)

Establishment	1989
Members	21 Pacific Rim Countries
APEC	Consists of annual ministerial meetings, senior officials meeting, working groups and a secretariat.

Objectives

- To assist growing inter-dependence among Asia-Pacific economies. APEC began as an informal dialogue group, but has now grown to become the primary regional vehicle for promoting open trade and practical economic co-operation among its members.
- The objective of APEC is to promote free and open trade in the Asia-Pacific region through trade and investment, liberalisation and facilitation.

Organisation of the Petroleum Exporting Countries (OPEC)

Headquarters	Vienna, Austria
Members	12 (Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE and Venezuela)
Official Language	English
Establishment	1960

OPEC nations account for two thirds of the world's oil reserves and 33.3% of the world's oil production.

Objectives

- Determination of the best means for safeguarding the organisation's interests, individually and collectively. It pursues ways and means of ensuring the stabilisation of prices in international oil markets with a view to eliminate harmful and unnecessary fluctuations.
- To provide an efficient and regular supply of petroleum to consuming nations and a fair return on their capital to those investing in the petroleum industry.
- The OPEC fund for International Development was set-up in 1976, to provide financial aid on advantageous terms to developing countries and international development agencies. In 1980, the fund was transformed into a permanent autonomous international agency.

Euro

It was the single currency of European Union, which came in circulation by 1999.

Euro Zone

Euro Zone was found under the treaty of Maastricht. The Treaty of Maastricht (officially the Treaty on European Union) was signed by the 12 member states of the European Economic Community on 7th February, 1991 in Maastricht, the Netherlands, after final agreement on 9th December , 1991. It entered into force on 1st November, 1993. The EU now has 27 member states.

Conditions for Participation in Eurozone

There are five criteria set out in the Treaty of Maastricht that must be met by European countries if they wish to adopt the European Union's single currency, the euro.

They are as follows

1. Inflation of no more than 1.5% points above the average rate of the three EU member states with the lowest inflation over the previous year.
2. A national **budget deficit** at or below 3% of Gross Domestic Product (GDP).
3. National public debt not exceeding 60% of Gross Domestic Product. A country with a higher level of debt can still adopt the euro provided its debt level is falling steadily.
4. Long-term interest rates should be no more than two percentage points above the rate in the three EU countries with the lowest inflation over the previous year.
5. The national currency is required to enter the 'Exchange Rate Mechanism II'(E=Rm)$_2$ exchange rate mechanism two years prior to entry.

Tit-Bits

- Currently, India is Co-Chair of the working group on G-20.
- The Food and Agriculture Organisation of the United Nations (FAO) is an agency of the United Nations that leads international efforts to defeat hunger. All Members of the IBRD are also IMF members and *vice-versa*.
- WTO 9th ministerial conference was held in Bali (Indonesia) in December, 2013.

Regional Organisations

South Asian Association for Regional Co-operation (SAARC)

Headquarters	Kathmandu, Nepal
Official Language	English
Demonym	South Asian
Membership	8 Members
Establishment	8th December, 1985

Objectives

- To promote the welfare of the people of South Asia and to improve their quality of life.
- To strengthen co-operation with other developing countries.
- To co-operate with international and regional organisations with similar aims and purposes.
- To maintain peace in the region.

Association of South-East Asian Nations (ASEAN)

Headquarters	Jakarata, Indonesia
Members	10 (Brunei, Cambodia, Indonesia, Malaysia, Myanmar, Vietnam, Laos, Thailand, Singapore and Philippines)
Establishment	1967

Objectives

- Accelerating economic growth, social progress, cultural development among its members, protection of regional peace and stability.
- Providing opportunities for member countries to discuss differences peacefully.

European Union (EU)

Headquarters	Brussels, Belgium
Members	27
Establishment	18th April, 1951

Objectives

The Treaty of Maastricht identified five goals designed to unify Europe in more ways than just economically.

The goals are as follows

- To strengthen the democratic legitimacy of institutions.
- To improve the effectiveness of the institutions.
- To establish an economic and monetary union.
- To develop the community social dimension.

Question Bank

1. As per the news published in the newspapers, the International Monetary Fund (IMF) praised India's, performance on its economic front. Which of the following is not true in this respect? **[BOI PO 2008]**

   I. IMF favoured the cuts in fuel subsidies as part of expenditure measures to create space for spending on priority sectors.

   II. IMF was not in favour of huge foreign fund flow to India as it has created an imbalance at regional level. IMF wants India to do something for the same.

   III. IMF wants some more structural reforms to be implemented quickly.

   Which of the statements given above is/are correct?

   (1) Only I *(2)* Only II *(3)* Only III
   (4) I and II *(5)* All of these

2. The IMF and the World Bank were conceived as institutions **[BOI PO 2008]**

   (1) strengthen international economic co-operation and to help create a more stable and prosperous global economy
   (2) IMF promotes international monetary cooperation
   (3) The World Bank promotes long-term economic development and poverty reduction
   (4) All of the above
   (5) None of the above

3. Which of the following statements is/are true about the 34th Summit of the World's eight most industrialised nations (G-8 Summit) held in July, 2008? **[SBI 2008]**

   I. The summit took place in Moscow.

   II. Leaders of G-8 countries endorsed a proposal to have the quantity of the carbon emissions in the air by the year 2050.

   III. Leaders of G-8 nations also expressed their strong concern about the sharp and frequent rise in the prices of oil products globally.

   Which of the statements given above is/are correct?

   (1) Only I *(2)* Only II *(3)* Only III
   (4) I and III *(5)* All of these

4. The Foreign Trade Policy announced in the year 2004 was announced for a period of

   (1) two years *(2)* three years
   (3) four years *(4)* five years
   (5) ten years

5. The letter 'D' stands for which of the following the abbreviated name OECD? Organisation of Economic Co-operation and ......

   (1) Defence *(2)* Direction
   (3) Dominance *(4)* Development
   (5) Devaluation

6. Which of the following policies of the financial sectors is basically designed to transfer local financial assets into foreign financial assets, freely and at market determined exchange rates? Policy of **[Indian Overseas Bank 2009]**

   (1) Capital Account Convertibility
   (2) Financial Deficit Management
   (3) Minimum Support Price
   (4) Restrictive Trade practices
   (5) None of the above

7. We very frequently read about the activities of the Foreign Exchange Market in newspapers/magazines. Which of the following is/are the major functions of the same? **[United Bank of India 2009]**

   I. Transfer of purchasing power from domestic to foreign market.

   II. Providing credit for financing foreign trade.

   III. Power to purchase gold from foreign countries, as most of the nations still work on Gold Standards.

   Which of the statements given above is/are correct?

   (1) Only I *(2)* Only II
   (3) Only III *(4)* I and II
   (5) II and III

8. Which of the following countries has been given permanent membership of the World Trade Organisation recently? **[Indian Oversease Bank 2009]**
(1) Ukraine
(2) India
(3) Pakistan
(4) Sri Lanka
(5) None of these

9. Many a time we read about Special Drawing Right (SDR) in newspapers. As per its definition, SDR is a monetary unit of the reserve assets of which of the following organisations/agencies? **[SBI 2010]**
(1) World Bank
(2) International Monetary Fund (IMF)
(3) Asian Development Bank
(4) Reserve Bank of India
(5) None of the above

10. As per the news published in various financial newspapers, the RBI is r-working the roadmap on Capital Account Convertibility. If this is done, who amongst the following would be able to invest in foreign projects or acquire assets outside India without any restrictions? **[SBI 2010]**
I. Public Sector Banks
II. Companies which are registered in India
III. Government of India
IV. Any Individual

Select of the correct answer using the codes given below
(1) Only I
(2) Only II
(3) Only III
(4) All of these
(5) None of the above

11. As per-recent reports, many countries are planning to introduce 'Tobin Tax', the idea of which was given by a nobel prize winner economist James Tobin in 1978. Tobin Tax, if implemented, will be levied on which of the following? **[SBI 2010]**
(1) On the interest income of corporates earned through major investments
(2) All cash transactions
(3) Services availed specifically by an elite group of people
(4) Foreign exchange transactions
(5) None of the above

12. As per the Reserve Bank of India (RBI), the economic conditions in India are not yet suitable for full convertibility of Rupee. At present Rupee is convertible at which of the following accounts? **[Indian Bank 2010]**
I. Fully at Capital Account
II. Fully at Current Account
III. Partially at Trade Account

Select the correct answer using the codes given below
(1) Only I
(2) Only II
(3) Only III
(4) I and III
(5) None of these

13. Which of the following is/are included in 'Deficit Financing' in India?
I. Borrowing from the Reserve Bank of India
II. Issue of new currency notes
III. Withdrawal of past balances/surpluses etc

Select the correct answer using the codes given below
(1) Only I
(2) Only II
(3) Only III
(4) All of these
(5) None of these

14. Which of the following organisations provides guarantee to the exporters? **[Allahabad Bank 2011]**
(1) Exim Bank
(2) Export Credit Guarantee Corporation
(3) Director General Foreign Trade
(4) Reserve Bank of India
(5) Registrar of Companies

15. Which of the following organisations issues the rules of global trade? **[Allahabad Bank 2011]**
(1) World Bank
(2) World Trade Organisation
(3) Foreign Exchange Dealers' Association
(4) Directorate General of Foreign Trade
(5) None of the above

16. What is cross border exchange? **[Allahabad Bank 2011]**
(1) Trading of foreign currency in India
(2) Trading of Indian rupee in exchange of other currencies/goods
(3) Hawala transactions in Indian rupee
(4) Unauthorised remittance of Indian rupee
(5) None of the above

17. What is 'financial inclusion'? **[Allahabad Bank 2011]**

I. Easy access to bank accounts for safe parking of savings.

II. Availability of cheap credits through appropriately designed loans for poor and low income households and small entrepreneur.

III. Availability of basic financial products like insurance.

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) Only III
(4) I and II
(5) All of these

18. Invisible Export means export of **[Corporation Bank 2011]**

(1) services
(2) prohibited goods
(3) unrecorded goods
(4) goods through smuggling
(5) All of the above

19. Where is the head office of the International Monetary Fund (IMF)? **[Andhra Bank 2011]**

(1) Paris
(2) New York
(3) Washington DC
(4) Dhaka
(5) Beirut

20. Which of the following statements is true about International Monetary Fund (IMF)? **[RBI 2011]**

(1) It provides ways and means funds to member countries
(2) It is an agency of the World Bank and is situated in Prague
(3) It makes all the rules and regulations in relation to the world trade between the nations
(4) On becoming its member, countries get finance as temporary balance of payment needs
(5) It is an organisation floated by the members of NATO and caters to the need of those countries only

21. Special Drawing Rights are the rights of countries provided by **[RBI 2011]**

(1) World Bank
(2) IMF
(3) ADB
(4) Federal Reserve
(5) None of these

22. Which of the following economic concepts is 'categorised on the basis of current account or capital account or both? **[(RBI 2011]**

(1) Balance of payments
(2) Value of the foodgrain stock of a country
(3) Gross National Product (GNP)
(4) Gross National Income (GNI)
(5) Total collection of direct taxes in a year

23. The main function of the IMF is **[Indian Overseas Bank 2011]**

(1) to help solve balance of payments problems of member countries
(2) to arrange international deposits from banks
(3) to act as private sector lending arm of the World Bank
(4) to finance investment loans to developing countries
(5) None of the above

24. On which one of the following issues has IMF supported monetary policy of India? **[Indian Overseas Bank 2011]**

(1) Introduction of GST
(2) Stimulus for agriculture sector
(3) Concessions for foreign investment
(4) Tightening of monetary policy
(5) None of the above

25. Which of the following organisations has given a warning to the nations of the world that there may be increased risk to global financial stability in the world? **[RBI 2011]**

(1) World Bank
(2) World Trade Organisation
(3) Asian Development Bank
(4) International Monetary Fund
(5) United Nation Organisation

26. In order to attract, more foreign exchange the Government of India decided to allow foreign investment in LLP firms, what is full form of 'LLP' as used in this reference? **[IBPS 2011]**

(1) Local Labour Promotion
(2) Low Labour Projects
(3) Limited Loan Partnership
(4) Longer Liability Partnership
(5) Limited Liability Partnership

27. The difference between visible exports and visible imports is defined as [Corporation Bank 2011]
    (1) Balance of trade
    (2) Balance of payments
    (3) Balanced terms of trade
    (4) Gains from trade
    (5) All of the above

28. The main function of IMF is to [Corporation Bank]
    (1) finance investment loans to developing countries
    (2) act as a private sector lending arm of the World Bank
    (3) solve balance of payments problems of member countries
    (4) arrange international deposits from banks
    (5) None of the above

29. Consider the following statements
    I. IMF and World Bank both are Bretton Wood heir.
    II. World Bank provides long-term loan for promoting balanced economic development.
    III. IMF provides loans to eliminate BoP disequilibrium.

    Which of the statements given above are correct?
    (1) I and II (2) II and III
    (3) I and III (4) All of these
    (5) None of these

30. Consider the following statements
    I. WTO was established on 1st January, 1995.
    II. It was created by Uruguay round negotiation.
    III. WTO has 159 members countries.

    Which of the statements given above are correct?
    (1) I land II (2) I and III
    (3) II and III (4) All of these
    (5) None of these

31. The IMF and the World Bank were conceived as institutions to
    (1) strengthen international economic co-operation and to help create a more stable and prosperous global economy
    (2) IMF promotes international monetary cooperation
    (3) The World Bank promotes long-term economic development and poverty reduction
    (4) All of the above
    (5) None of the above

32. As per the news published in the newspapers, the International Monetary Fund (IMF) praised India's, performance on its economic front. Which of the following is not true in this respect?
    I. IMF favoured the cuts in fuel subsidies as part of expenditure measures to create space for spending on priority sectors.
    II. IMF was not in favour of huge foreign fund flow to India as it has created an imbalance at regional level.
    III. IMF wants some more structural reforms to be implemented quickly.

    Select the correct answer using the codes given below
    (1) Only I (2) Only II
    (3) Only III (4) I and II
    (5) All of these

33. Whose part is the International Bureau of Education?
    (1) UNESCO (2) UNIDO
    (3) IMF (4) All of these
    (5) None of these

34. As per the reports published by the World Bank, what percentage of Indian population lives below the new International Poverty Line?
    (1) 30% (2) 62% (3) 52% (4) 42%
    (5) 68%

35. Which of the following is not an original member of the UN?
    (1) Pakistan (2) India (3) Poland (4) Cube
    (5) All of these

36. Which of the following statement is/are true about the 34th Summit of the World's eight most industrialised nations (G-8 Summit) held in July 2008?
    I. The Summit took place in Moscow.
    II. Leaders of G-8 countries endorsed a proposal to halve the quantity of the carbon emissions in the air by the year 2050.

III. Leaders of G-8 nations also expressed their strong concern about the sharp and frequent rise in the prices of oil products globally.

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) I and II
(4) II and III
(5) All of these

37. As per the news reports members of the SAARC agreed to establish a 'SAARC' Food Bank' to ensure food security for members in case of any emergency. Which of the following nations agreed to provide maximum quantity of food for the bank?

(1) India
(2) Pakistan
(3) Bhutan
(4) Nepal
(5) Sri Lanka

38. What are the ad-hoc bodies of the UN General Assembly?

(1) Special Committee on Peace Keeping Operation, Human Rights Committee, Committee on the Peaceful Use of Outer Space
(2) Conciliation Commission for Palestine, Conference on Disarmament, International Law Commission, Scientific Committee on the effects of Atomic Radiation
(3) Special Committee on the Implementation of the Declaration on the Granting of Independent Countries and Peoples Commission on International Trade Law
(4) All of the above
(5) None of the above

39. As reported in various newspapers/ magazines, India has doubled its credit to Africa for 5 years from next fiscal. This decision was taken in which of the following forums?

(1) Meeting of the G-8 nations
(2) Meeting of the World Trade Organisation 2008
(3) India-Africa Forum Summit 2008
(4) Meeting of the Foreign Ministers of the SAARC
(5) None of the above

40. Which of the following is not a member of Asean?

(1) Malaysia
(2) Indonesia
(3) Vietnam
(4) Britain
(5) Singapore

41. Which of the following pairs is not correct?

(1) Statue of the International Court of Justice: 70 Articles
(2) Original Members of the UN: 50 Articles
(3) UN Charter: 111 Articles
(4) Universal Declaration of Human Rights: 30 Articles
(5) All of the above

42. Which of the following pairs is not correct?

(1) SAARC : New Delhi
(2) ASEAN : Jakarta
(3) International Committee of the Red Cross : Geneva
(4) interpol : Geneva
(5) Both '3' and '4'

43. The second BIMSTEC Summit was organised in November 2008 in

(1) Dhaka
(2) Kathmandu
(3) Thimpu
(4) New Delhi
(5) None of these

44. Where is the Headquarters of Inter Parliamentary Union?

(1) Sweden
(2) UK
(3) USA
(4) Switzerland
(5) India

45. When did UN General Assembly establish UN Industrial Development Organisation?

(1) 1968
(2) 1966
(3) 1967
(4) 1965
(5) 1977

46. When did World Trade Organisation come into force?

(1) 2nd January, 1948
(2) 1st January, 1995
(3) 12th January, 1948
(4) 15th January, 1946
(5) 13th January, 1947

47. What is the number of member states in the World Trade Organisation?

(1) 144
(2) 148
(3) 150
(4) 146
(5) 170

48. Who have the largest share of world trade?

(1) European Union, USA
(2) Japan
(3) Canada
(4) All of the above
(5) None of the above

49. Where is the Headquarters of World Trade Organisation?

(1) New Delhi
(2) New York
(3) Geneva
(4) Rome
(5) None of these

50. Which UN Organisation is called as the World Bank?

(1) International Bank for Reconstruction and Development (IBRD)
(2) International Banking System
(3) International Banking Management System
(4) None of the above
(5) All of the above

51. Where is the headquarters of International Finance Corporation?

(1) New Delhi
(2) Tokyo
(3) London
(4) Washington
(5) All of these

52. Choose the correct option related' to World Bank Organisations, IBRD and IDA

I. India use IDA funds on social sector.
II. India use IBRD funds on infrastructure development.
III. IBRD loans are cheaper than IDA loans.

Which of the statements given above is/are correct?

(1) Only I
(2) Only II
(3) I and II
(4) II and III
(5) All of these

53. How is the United nation Monetary and Financial Conference where in the agreements were signed to set-up IBRD, GATT and IMF, commonly known?

(1) Bandung Conference
(2) Bretton Woods Conference
(3) Versailles Conference
(4) Yalta Conference
(5) Geneva Conference

54. Which one of the following countries is the first borrower of fund from the International Monetary Fund?

(1) United Stales
(2) France
(3) Spain
(4) India
(5) Sri Lanka

55. Which one of the following statements is true regarding IMF?

(1) It is not an agency of UNO
(2) It can grant loan to any country of the world
(3) It can grant loan to State Government of a country
(4) It grants loan only to member nations.
(5) All of the above

56. Voting rights in the IMF are distributed on the basis of

(1) one country, one vote
(2) proportion to the share of the income of the country in the world income
(3) proportion to contributions given by each country
(4) proportion to quota allotted to countries from time to time
(5) None of the above

57. Which of the following is not a member of Organisation of the Petroleum Exporting Countries (OPEC)?

(1) Algeria (2) Brazil (3) Ecuador
(4) Nigeria (5) All of these

58. The headquarters of IMF and World Bank are located at

(1) Geneva and Montreal
(2) Geneva and Vienna
(3) New York and Geneva
(4) Washington DC
(5) Nigeria

59. Which one of the following is the final session of the General Agreement on Tariff and Trade (GATT)?

(1) Singapore Session
(2) Geneva Session
(3) Washington Session
(4) Uruguay session
(5) Vienna session

Glossary

AAA The grade AAA is given to the best debt obligation or a security by a credit rating agency.

Account It is a record of financial transactions in the form of stock of flows. It is an arrangement between a seller and a buyer under which a period of credit is allowed before payment.

Acceptance (or banker's acceptance) It is a signed instrument of acknowledgement that indicates the approval and acceptance of all terms and conditions of any agreement on behalf of the banker. It is a very wide term that is used in context of financial agreements and contracts.

Accepting House An organisation specialises in two prominent functions *i.e.*, facilitating the different negotiable instruments and merchant banking.

Account Balance The total amount of money in a particular bank account, alongwith the debit and credit amounts, the net amount, is also termed as the account balance.

Account Reconciliation It is a process with the help of which the account balance can be easily verified. Account reconciliation is usually done at the end of a week, month, financial year or at the end of any financial period. It is usually done with the help of receipts, ATM notes, bank statements records transactions etc.

Account Statement A financial record that indicates the transactions and its effect on an account (usually bank account), in terms of debits and credits. Sometimes, an account statement also carries some precise details, like the date of transaction, code of transaction, mode of transaction, sales, purchases etc.

Accretion It is the process where the price of a bond that has been bought at a discount is changed to the par value of the bond. It is also defined as a change in the price of a bond that has been bought at a discount to the par value of the bond.

Accrual Basis This is the process of accumulation of interest or money. The accrual basis is calculated by assuming that every month has 30 days. Accrual basis is often used as the common parameter for the calculation of interests and returns.

Accrual Bond This is a bond that has a tendency to pay the investors, an above the market rate. It is also known as *range bond*. Sometimes, an accrual rate is also defined as a security that does not have a period payment for the rate of interest. The interest is accrued and then added later on at the time of maturity.

Accrued Interest An interest accumulated on an investment, but is not yet paid. Some banking books prefer to call it as the interest that is earned, but not yet paid.

ACH The abbreviation of the banking term automated clearing house. The automated clearing house operates on a national level and helps banks and financial institutions in the clearance of balances and negotiable instruments that are used at a personalised as well as a mercantile mode of transactions.

Administered Rates Rates of interest which can be changed contractually by lender. In some cases, these rates can also be changed by the depositor and also the payee.

Allotment Letter It is a letter addressed to a subscriber to an issue of shares informing him of the number of share that he has been allotted and where payment was not made with the application, the amount due.

American Depository Receipt (ADR) ADRs are depository receipts which are equal to a specific number of shares of a corporate stock that has been issued in a foreign country. American depository receipts are traded only in the United States of America.

Amortisation of Loans The process of liquidation of loans or securities with the help of periodic reductions. The principal amount of the loan is amortised periodically by the method of payments in instalments. The techniques that are used for the amortisation of a loan differs from case to case.

Amortisation Period The time period that is considered from the inception of the credit, investment or negotiable instrument and ends upon the maturity or expiry of the instrument. The amortisation period is basically considered in order to calculate the rate of interest, timeline of instalments and also the appropriate amount of all the instalments. The term *amortisation period* is also used in the field of accountancy; however, in a different context.

Amortising Swap It is a swap in the rate of interest that has a declining notional principal.

Annuities They are contracts that guarantee income or return, in exchange for a huge sum of money that is deposited, either at the same time or is paid with the help of periodic payments. Some of the common types of annuities include the deferred, fixed, immediate or variable variants.

Arbitrage It is the simultaneous purchase and sale of two identical commodities or instruments. This simultaneous sale and purchase is done in order to take advantage of the price variations in two different markets. *e.g.*, purchase of gold in one nation and the simultaneous sale in another nation, (international markets) to achieve profit.

Asset Any business resource, both tangible and intangible, acquired at monetary cost and which is expected to be of benefit to the business for a period of time, such as buildings, machinery etc. Intangibles include goodwill etc. Any resource of a deceased or insolvent person from which claims may be met.

Asset Backed Security (ABS) A security that is backed with the help of some kind of valuable assets, is known as an asset backed security. Sometimes, ABS is also referred to as the monthly rate of repayment of a secured loan.

Asset and Liability Management This is the co-ordinated management of all the financial risks inherent in the business conducted by financial institutions. In real practice, asset and liability management aims at minimisation of loss and maximisation of profit.

Assignment It is the transfer of any contractual agreement between two or more parties. The party that assigns the contract is the assignor and the party who receives the assignment is the assignee.

Attrition Analysis It is basically carried out for the purpose of reformation of the assets and liabilities in a balance sheet.

Automated Teller Machines (ATM) These machines are basically used to conduct transactions with the bank, electronically. The automated teller machine is an excellent example of integration of computers and electronics into the field of banking.

Automatic Stay This is an injunction that automatically becomes effective, after any person or organisation files for bankrupty. The automatic stay basically precludes the creditors from taking the debtor or the property of the debtor.

Autarky A situation when a country does not no foreign trade.

Average Cost It is a strategy of gradually buying more and more securities in a declining market or selling in a rising market in order to level out/rationalise the purchase or sale price.

Acquirer They are banks and financial institutions that collaborate with businesses to accept credit/debit card payments.

Active Account A bank account in which there are regular transactions. A bank account that is not dormant or inoperative or under an attachment order of the court or enforcement authorities.

Additional Card holder Another member added to an existing card thus extending its usage is called an additional card holder. Thus by adding an additional card holder, the existing card holder allows him/ her to make purchases and use the credit card. However, the responsibility to repay the monthly outstanding balance rests with the original (principal) card holder.

Affinity Card Credit cards linked to special organisations like sports clubs, exclusive clubs and charities. Affinity credit cards can also help raise funds, when a part of income from every transaction goes toward the benefit of relevant organisation.

Anywhere Banking Customer can deposit/ withdraw cash at any branch other than the branch in which he holds the account. Anywhere banking frees the customer from geographical boundaries and limitations and gives the flexibility to the customer to use his account across the board.

Automatic Funds Transfer An arrangement that moves funds from one account to another automatically on a pre-arranged schedule *e.g.*, every per day or once a month.

Automatic Payment An arrangement that authorises payments to be deducted automatically from a bank account (usually a savings/current account) to pay bills (such as insurance payments, rent, mortgage or loan payments). Payments are usually scheduled to be made on a certain day of the month.

Available Credit It is your credit limit minus your current balance. It is the unused portion of your credit line.

Bad Debt A debt which is irrecoverable and is therefore written off as a loss in the accounts of a company/bank etc.

Bad la It is a method of carrying for ward of transactions from one settlement period to another without effecting delivery.

Balance Transfer It is the repayment of a debt with the help of another source of credit. In some cases, balance transfer also refers to transfer of funds from one account to another.

Bank It is an establishment that helps individuals and organisations in the issuing, lending, borrowing and safeguarding functions of money.

Bank Account A bank account is an account held by a person with a bank, with the help of which the account holder can deposit, safeguard his money, earn interest and also make cheque payments.

Bank Debt A bank debt is basically any debt that is owed to a bank, by any kind of consumer, organisation or corporation. The debt may be anything from a bank loan to a credit card debt or an overdraft that has been used.

Bankrupty It refers to economic insolvency, wherein the person's assets are liquidated, to pay off all liabilities with the help of a bankrupty trustee or a court of law.

Bid and Offer Bid is a price of share on which a prospective buyer is prepared to pay for a particular scrip. Offer is the price at which a share is offered for sale.

Bill It is a document which gives evidence of indebtedness of one party to another.

Billing Statement It is a summary of all transactions, payments, purchases, finance charges and fees that take place through a credit account during a 'billing cycle.

Black Market A market in which goods are sold at prices that violate some legally imposed pricing restrictions.

Blue Chip It is a first-class equity share, the purchase of which (the hose is) entails little risk even in economic recessions (Depression).

Bond It is a certificate that represents an interest bearing debt, where the issuer is required to pay a sum of money periodically till maturity and then receive back the accumulated amount.

Borrower This is the party that uses any kind of credit facility and thus, becomes obliged to repay the principal amount and interest on the borrowed amount.

Bounced Cheque It is nothing but an ordinary bank cheque that any bank can refuse to encash or pay because of the fact that there are no sufficient finances in the bank account of the originator or drawer of the cheque.

Boom It denotes increasing activity in a market arising out of greater demand.

Bridge Financing Also known as gap financing, bridge financing is a loan where the time and cash flow between a short-term loan and a long-term loan is filled up. Bridge financing begins at the end of the time period of the first loan and ends with the start of the time period of the second loan, thereby bridging the gap between two loans. It is also known as gap financing.

Bridge Loan This loan also known as a swing loan, is basically a real estate loan or a home loan, where the current residence/real estate is pledged by the borrower as a collateral in order to purchase a new residence.

Bullion It means gold silver or other precious metal in bulk, *i.e.*, in the form of ingots or bars rather than in coin. A bullion market is a gold market.

Bank Draft An instrument issued by one branch of a bank on another branch of the bank containing an order to pay a certain sum on demand to the person named on the draft. It is used to transfer funds and to settle outstanding balances between banks or to provide a customer with funds payable at a bank in a different location. Bank drafts are valid for certain period, generally, for 6 months, as indicated over face of draft.

Banker's Cheque A cheque issued by a branch of a bank against consideration received. Banker's cheque are valid for a certain period as indicated on the face of the cheque, (also called Pay Order).

Budget The financial record you use to keep track of the money you earn, how much you spend and what you spend it on. Your budget also includes savings and how much you pay to your creditors.

Business Credit Card A reward credit card, that comes with special features and rewards for corporate users. Business credit card builds credit history for the associated business. They are a good way to separate business expenses from personal ones.

Cap It is a limit that regulates the increase in the rate of interest and instalments of an adjustable rate mortgage.

Capital This means the total net worth of any business establishment, organisation or corporation or the total amount invested for financial returns.

Capital Accumulation It is increase in a country's stock of real capital (*i.e.*, net investment in fixed assets).

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Capital Allowances They are reductions in tax liability which are related to a firm's capital expenditure. In most countries expenditure on new capital assets is encouraged by various kinds of allowances and annual depreciation is recognised as an expense of the business in calculating tax liability.

Capital Employed It is the capital in use in a business. There is no universally agreed definition of the term. It is sometimes taken to mean Net A sets (*i.e.*, fixed plus current assets minus current liabilities), but more usually bank loan and overdrafts are included and other adjustments made for purposes of calculating the return on Net employed such as the exclusion of intangible assets and the revaluation of trade investments at market prices.

Capitalist Economy A capitalist or free market economy is one where means of production are privately owned and where profit is the sole driving force behind production activity.

Capital Expenditure It is the purchase of fixed assets (*e.g.*, plant and equipment), expenditure on trade investments or acquisitions of other businesses and expenditure on current assets (*e.g.*, stocks). It differs from capital formation.

Capital Formation It is the net investment in fixed assets, *i.e.*, additions to the stock of real capital.

Capital Gains It is a realised in crease in the value of a capital asset. It arises when a share is sold for more than the price at which it was purchased. Strictly speaking, the term refers to capital appreciation outside the normal courses of business.

Capital Loss It is a reduction in the money value of an asset. It is the opposite of capital gain.

Capital Stock It refers to the total amount of physical capital in the economy or less commonly, in a firm or industry. In theory, the only correct valuation of the stock in the present value of the income stream it will generate in the future and changes in the capital stock should provide a guide to changes in the productive potential of the economy.

Since, the different parts of the capital stock roads, machinery and buildings, cannot be added together in practice they have to be valued to produce an estimate; of the capital stock at the prices of a given year.

Capital Budget It comprises capital receipt and payments and also incorporates transactions in the public account.

Capital Receipt These are loans raised by the government from the public, which are called market loans, borrowings by the government from the Reserve Bank of India and other parties.

Carry Forward Trading It has evolved a response to local needs in India and it refers to the trading in which the settlement is postponed to the next account period on payment of contango charges (Vyaj badla) in which the buyer pays interest on borrowed funds or the backwardation charges (undha badla) In which the short seller pays a charge for borrowing securities.

Cash Bills and coins, cheques and other negotiable instruments, that are acceptable at banks and are considered to be liquid assets are collectively known as cash.

Cash Advance Fee This is basically charged when a person uses a credit card to obtain cash. In most cases, it is charged as a percentage of the cash advance.

Cash Reserve This is the total amount of cash that is present in the bank account and can also be withdrawn immediately.

Cash Ratio It is the ratio of a bank's cash holdings to its total deposit liabilities. For an individual firm. it is the proportion of its current liabilities that are accounted for by cash in hand, including bank deposits and sometimes payments due from customers.

Capital Inflow Arises when overseas residents buy assets he domestic economy or domestic residents sell foreign assets.

Capital Outflow Arises when overseas residents sell assets in the domestic economy or domestic residents buy foreign assets.

Capital Widening Increasing the quantity of capital without changing the proportions in which the factors of production are used.

Certificate of Deposit This is a certificate of savings deposit that promises the depositor the sum back along with appropriate interest.

Central Bank This is the governing authority of all the other banks in a country.

Chain Banks Chain banks refer to separately incorporated banks brought under common control by a device by smaller banks of some of their cash reserves with bigger banking.

Cheap Money Money which is available at low rate of interest is known as cheap money.

Cheque It is a negotiable instrument that instructs the bank to pay a particular amount of money from the writer's bank, to the receiver of the cheque. Cheque A cheque which has been signed and dated but in which the amount payable has not been filled in. This is left for the payee to insert.

Closed Economy A closed economy is one which does not have any external economic relationship.

Closing Closing of an account is the final stage of any transaction where both the parties receive almost equal consideration from each other. The term 'closing' from ledger books where the two accounts are 'closed down' *i.e.*, both debit and credit sides become equal.

Co-Borrower A person who signs a promissory note as a guarantee that the loan would be repaid. Thus, the co-borrower plays the role of a guaranter and is equally responsible for the loan.

Consumer Credit It is the credit and loan facility that is provided to the consumer for the purchase of goods and services. It cannot be unsecured of there is collateral. Most consumer credit is unsecured with the help of a collateral.

Common Market An agreement among a group of countries to have free trade among themselves, a common set of barriers to trade with other countries and free movement of labour and capital among them selves.

Correspondent Banking Under the correspondent banking system, banks are linked together through deposits by smaller banks of some of their cash reserves with bigger banks.

Consumer Good A commodity bought by households for use of consumption.

Compound Interest This is the interest that is 'compounded' on a sum of money that is deposited for a long time. The compound interest, unlike simple interest, is calculated by taking into consideration, the principal amount and the accumulated interest.

Consolidated Fund It refers to sums standing to a particular acount of exchequer (for which it is often used synonymously into which the proceeds of taxation are paid and from which government expenditure are made.

Conspicuous Consumption It is the ostentatious personal expenditure which satisfies no physical need but rather a psychological need for the esteem of other. Goods may be purchased not for their practical use as status symbols.

Countervailing Duty It is a special additional import duty imposed on a commodity to offset a reduction of its price as a result of an export subsidy in the country of origin.

Coupons These are tokens for payment of interest attached to bearer securities.

Coupon rate It is interest rate on a debt security, which the issuer promises to pay to holder periodical till maturity.

Convertibility A currency is said to be convertible when it may be freely exchanged for another currency or gold.

Creditors He is the one to whom an amount of money is due. A firm's creditors are other firms, individuals and perhaps the government to which it owes money in return for goods supplied, services rendered and taxes for which it is liable.

Credit Creation Power of commercial banks to expand deposits through expanding their loans and advances is known as credit creation.

Credit Transfer or Giro In this system a bank or post office will transfer money from one account to another on receipt of written instructions.

Creditors Nation The term is used for a country with a balance of payments surplus.

Credit Rating The amount which a credit agency states a borrower is capable of repaying. Credit rating can be done for stocks, bonds or nations themselves. Some global credit rating agencies are Standard and Poor's (S & P), Moody's etc. CRISIL is the Indian agency rating bonds etc.

Credit Rating Information Services of India Limited (CRISIL) Jointly sponsored by the UTI and the Industrial Credit and Investment Corporation of India (ICICI), CRISIL has been functioning since January, 1988. It rates the safety and timely payment of interest on debt securities like debentures and fixed deposits of public and private sector companies. The rating, subjected to periodic review, is given in alphabetical symbols preceded by D for Debentures and F for Fixed Safety, (an adequate safety,) B for Inadequate safety, C for High risk and D for Default.

Creeping Inflation Slow and persistent rise in general level of prices over a long period.

Cross Listing It refers to listing of instruments of a company on the stock exchange abroad.

Credit Guarantee It is a type of insurance against default provided by a credit guarantee association or other institution to a lending institution. Credit guarantees enable otherwise 'sound' borrowers who lack collateral security or are unable to obtain loans for other reasons, to obtain the credit they require through banks in the normal way.

Cum-Rights The share is cum-rights when a potential purchaser is entitled to receive the current rights.

Current Yield It is the annual interest on bond divided by the market price.

Currency It refers to notes and coins that are the 'current' medium of exchange in a country.

Currency Appreciation It is the increase in the exchanged rate of one currency in terms of other currencies. The term is usually applied to a currency with a floating rate of exchange; upward changes in fixed rate of exchange are called revaluations.

Currency Depreciation It is the fall in the exchange rate , of one currency in terms of other currencies. The term is , usually applied to floating exchange rates. Downward changes in fixed rates of exchange are called devaluations.

Cyclical Unemployment Unemployment in industrial market economies resulting from down showing of economic activity on account of deficient demand (insufficient to ensure Keynesian full employment).

Cancelled Cheque A cheque that has been not paid and cancelled by the drawer-accountholder.

Capital Adequacy Ratio It is the capital to assets ratio which banks are required to maintain against risks. It is also known as Capital to Risk (Weighted) Assets Ratio (CRAR).

Certificate of Deposit (CD) A time deposit that is payable at the end of a specified term. CDs generally pay a fixed interest rate and generally offer a different interest rate than other types of deposit accounts. If an early withdrawal from the CD prior to the end of the term is permitted, a penalty is usually assessed. CD is sold at discount value and being a money market instrument, can be transferred to other person through negotiation.

Credit Card Debt The total unpaid balances on all of your credit cards (not to be confused with the minimum amount you owe each month).

Credit Criteria Factors used by lenders to rate the credit worthiness or ability to repay debt. They may include income, amount of personal debt carried, number of accounts from other credit sources and credit history. A lender is free to use any credit-related information in approving or denying a credit application.

Current Account An account used for commercial purpose. It attracts no rate of interest and is generally charged by the bank with maintenance charges. There is no limit to the number of transactions in this type of account.

Custodial Account An account created for the benefit of a minor with an adult as the custodian.

Dear Money The money available at exceptionally high rate of interest is called Dear money. It is the opposite of cheap money. A dear Money Policy involves keeping interest rates upto restrict the money supply.

Defensive Share It is the share that cannot be bought or sold for some time period.

Deferred Shares It refers to shares issued where ordinary shares have a fixed dividend and which entitle the holder to all profits after prior charges have been met.

Deficit It is an excess of liabilities over assets or of an expenditure flow over an incorrect flow.

Deflation It is a sustained reduction in the general level : of prices. Deflation is often, though not inevitably, accompanied by declines in output and employment and is distinct from disinflation which means a reduction in the rate of inflation.

Deposit It is money placed in an account at a bank and constituting a claim on the bank. The term bank deposit includes deposits on all types of account, including current accounts.

Deposit Account It is a bank account in which deposits earn interest and withdrawals from which require notice.

Depression It refers to a business cycle in which there is consistent decline of production, national income and employment level.

Devaluation It is the reduction of the official rate at which one currency is exchanged for another.

Developing Country It refers to a country that has not yet reached the stage of economic development characterised by the growth of industrialisation, nor a level of national income sufficient to yield the domestic saving required to finance the investment neccesary of further growth.

Debt Deflation A fall in aggregate demand that is associated with falling asset values, causing a negative wealth effect on consumption. It could also involve a decline in investment as investors wait for asset values to stop falling.

Debt Instruments Any written documents that record the terms of a debt, often providing legal proof of the condition under which interest will be paid and the principal repaid.

Development Gap The gap between less developed countries and developed countries.

Demand Deposit This refers to savings and current account of the bank account that is used.

Demand Pull Inflation A state of rising prices brought about by increase in aggregate demand in the face of short supply.

Dependency Burden That proportion of the total population of a country falling in the ages of 0 to 15 and 64 +, which is considered economically unproductive and therefore not counted in the labour force.

Debt Any amount that is owed by an individual, organisation or corporation to a bank.

Debit It is a banking term that indicates the amount of money that is owed by a borrower. It also indicates the amount that is payable or the amount that has been deducted from an account. The origin of the term is from the concept of debit side of a ledger account.

Debit Card It is an instrument that was developed with digital cash technology and is used when a consumer makes that payment first to the credit card company and then swipes the card. The debit card operates in the exact opposite manner of the credit card.

Debt Settlement It is a procedure wherein a person in debt negotiates the price with the lender of a loan, in order to reduce the instalments and the rate of repayment and ensure a fast and guaranteed repayment.

Debt Repayment It is the total process repayment of a debt alongwith the interest. Sometimes, the consolidation that is provided is also included in debt repayment.

Debt Recovery This is the process that is initiated by the banks and lending institutions, by various procedures like debt settlement or selling of collaterals.

Debt Management It is a process of managing debts and repaying creditors. Debt management is a very broad concept covering almost anything related to debts and their repayment.

Deposit Slip It is a bill of itemised nature and depicts the amount of paper money, coins and the cheques that are being deposited into a bank account.

Depositor The person who deposits money into a bank account is called a depositor.

Depreciation The degradation in the book and monetary value of a fixed asset as a result of wear and tear in the course of time.

Debt Consolidation Loan This is a type of loan, where the bank or the lending institution provides the borrower with a loan that helps the borrower to pay off all his previous debts.

Direct Taxes Taxes levied on persons that can vary with the status of the taxpayer, *e.g.*, income tax.

Discount Rate The difference between the current price of a bill and its maturity value expressed as an annualised interest rate.

Dividend It is a part of the profit that is earned by a corporation or joint stock companies and is distributed amongst the shareholders. It is the amount of a company's profits that the board of directors decides to distribute to ordinary shareholders. It is usually expressed either as a percentage of the nominal value of the ordinary share capital or as an absolute amount per share.

Domestic Income Income generated by the factors of production within the country from its own resources is called domestic income.

Dual Economy The economy of the underdeveloped countries is dualistic in nature, *i.e.*, it falls into two conspicuously distinct, but sharply contrasted divisions. There is a modern sector, mostly in the urban areas where the social and economic organisation is of the advanced nature and there is traditional sector comprising the backward indigenous speaking and production organisation.

Earnest Money Deposit It is made by the buyer to the potential seller of a real estate, in the initial stages of negotiation of purchase.

Earned Income Earnings such as salary or wages, income of working partners or proprietors and certain pensions and social security benefits are treated as earned income for tax purposes.

Economic Costs By economic costs we meant those payments which must be received by resource owners in order to ensure that they will continue to supply them in the process of production.

Economic Profits The difference between the revenues received from the sale of output and the full opportunity cost of the inputs used to make the output. The cost includes the opportunity cost of the owner's capital. Also called pure profits or simply profits.

E-Commerce (Electronic Commerce) The conducting of business transactions *via* remote electronic means.

E-Cash Also known as Electronic-cash and digital cash, E-cash is a technology where the banking organisations resort to the use of electronics, computers and other networks to execute transactions and transfer funds.

Economic Growth Economic growth means a process of sustained increase in real national income of a country over a long period of time.

EFT (Electronic Funds Transfer) A method of incrementing decrementing an account through electronic means, eliminating the need for paper checks or withdrawal slips.

Effective Exchange Rate An index number of the value of a nation's currency relative to a weighted basket of other currencies. Whereas an exchange rate measures the rate of exchange of a currency for one other currency, changes in the effective exchange rate indicate movements in a single currency's value against other currencies in general.

Electronic Filing This is the method of filing of tax returns and tax forms on the internet.

Enterprise Zone It is a designated zone in a depressed generally inner-urban area, in which firms located in the zone are given favorable taxation concessions and freedom from a number of planning constraints.

Encryption It is a process that is used to ensure the privacy and security of a person's confidential financial information. The actual process involves scrambling of the data of the person, in such a manner, so that only the person himself can see the data.

Endorsement It is basically the handing over of rights of a financial/legal document or a negotiable instrument to another person. The person who hands over his/her rights is known as the endorser and the person to whom the rights have been transferred, is known as the endorsee.

Equilibrium Price The price at which demand for a commodity and its supply are exactly equal is called the equilibrium price. At equilibrium price excess demand and excess supply are both equal to zero.

Equity It is the residual value of a company's assets after all outside liabilities (other than to shareholders) have been allowed for. The equity in a company under liquidation is the property of holder of ordinary shares, hence these shares are popularly called equities.

Estate Duty It is a tax payable on a person's property at his death and before it passes into the hands of others. Thus estate differs from an inheritance tax, which is payable by the recipients and which may vary according to the financial circumstances of the inheritor.

Euro Currency Market Euro currency market, also known as Euro - dollor market, is an international capital market which specialises in borrowing and lending of currencies outside the country issues.

Exchange It exchange is a trade of property, assets, goods or services for consideration of any kind.

Exchange Rate This is basically a rate, with the help of which one country's currency can be exchanged with the currency of another country.

Expiration Date This term indicates the invalidity of a financial document or instrument, after a specified period of time.

Early Repayment Charge (Prepayment charge) Charge that banks and financial institutions levy on borrowers when they prepay the loan amount before the end of loan tenure. Early repayment charge is also called prepayment penalty.

Electronic Clearing Service (ECS) An inter bank arrangement where by a customer can give instructions to his bank where he holds a current or savings account to pay the monthly instalments of payments due on loans/credit cards held with another bank.

Electronic Clearing Service (ECS) **Credit** It is used for affording credit to a large number of beneficiaries by raising a single debit to an account, such as dividend, interest or salary payment.

ECS credit can be utilised for payments like interest/dividend etc in the accounts maintained with other banks by another bank.

Electronic Funds Transfer (EFT) Any transfer of funds initiated by electronic means such as an electronic terminal, telephone, computer, ATM or magnetic tape.

Face Value It is the original value of any security or negotiable instrument.

Factor Costs It is the term used in the national accounts to described the valuations of output at market prices less taxes on expenditure plus subsidies.

Financial Market It is market for the exchange of capital and credit in the economy. Money markets concentrate on short–term debt instrument capital markets trade in long–term debt and equity instrument. Example of financial markets are the stock market, commodities market and forgein exchange market.

Financial Institution An institution that obtains capital from individuals, businesses and other organisations and invests it in various financial assets.

Financial Instrument It is anything that ranges from cash, deed, negotiable instrument or for that matter any written and authenticated evidence, that shows the existence of a transaction or agreement.

Financial Intermediary It is basically a party or person who acts as a link between a provider who provides securities and the user who purchases the securities. Share broker and almost all the banks are the best examples of financial intermediaries.

Financial Statement This statement is a record of historical financial figures, reports and a record of assets, liabilities, capital, income and expenditure.

Fixed Income Investments It refers to an investment that pays a fixed rate of return. This usually brings into question a fixed return from a fixed deposit or an investments in a debentures issued by a certain company or a bond issued by some government controlled institution.

Fixed Exchange Rate An exchange rate that is held within a narrow band around some pre-announced par value by intervention of the country's Central Bank in the foreign exchange market.

Fixtures This term is used in the context of a real estate property, when assets like furniture are attached to the real estate and are also included in its book value. Banks, in many cases, are known to include fixtures in the value, if the real estate property has been pledged as a collateral.

Fixed Rate Mortgage This is a home loan, for which the interest rate remains constant and fixed throughout the lifetime of loan.

Floatation It means raising new capital by public subscriptions. A private company issuing share to the public for the first time is said to be going public.

Floating Capital It refers to the capital which is not invested in fixed assets such as machinery, but in work in progress, wages paid etc. It is synonymous with working capital.

Floating Charge It is an assignment of the total assets of a company or individual as collateral security for a debt, as opposed to particular assets, when such an assignment is called a fixed charge.

Foreign Bonds These are bonds denominated in the currency of the foreign country where funds are sought to be raised. The issuer is borrower who desires to raise funds outside the domestic capital market.

Foreign Institutional Investor An institution established or incorporated outside India which proposes to make investment in India in securities; provided that a domestic asset management company or domestic portfolio manager who manages funds raised or collected or brought from outside India for investment in India on behalf of a sub-account, shall be deemed to be a foreign institutional investor.

Foreign Investment It is the acquisition by government, institutions or individual in one country of assets another. Foreign investment is defines to cover both direct investment and portfolio investment and includes both public authorities and private firms and individuals.

Foreclosure It is a standardised procedure where creditors like banks, are authorised to obtain the title of the real estate property that has been pledged as a collateral.

Foreign Currency Surcharge It is levied by some banks and credit card companies, when a credit card or an ATM is used in a foreign country.

Funding It is the process of converting short-term debt by the sale of long-term securities and using the funds received to pay off short-term debt. Funding may be carried out by a company because its capital structure is inappropriate, *i.e.*, to take advantage of the fact that long-term capital is normally cheaper and less likely to be withdrawn than short-term capital. Companies or governments may also take advantage of a period of low rates of interest to repay long-term stocks at the earliest possible date and replace them with new stocks at lower rates of interest. Funding has also been used as an instrument of Monetary Policy by the government as well as for national debt incomplete.

Gateway An interface that links the internet shopper, the online merchant and banking systems in a secure environment. The gateway contains the bulk of the logic for handling processor business rules, processor time-outs and so on.

Group Banking It is one where two or more separately incorporated banks are bought under the control of a holding company which may not be a banking company. The banks bought together may be unit banks or branch banks or both.

Green Revolution The revolution in grain production associated with the scientific discovery of new hybrid seed varieties of wheat, rice and corn which have resulted in high farm yields in many LDCs.

Government Bonds It is also known as a government security, is basically any security that is held with the government and has the highest possible rate of interest.

Gross Investment The total value of all investment goods produced in the economy during a stated period of time.

Gross Return on Capital The market value of output minus all non-capital costs, the gross return is made up of depreciation, the pure return on capital, any risk premium and the residual which is pure profit.

Gross Domestic Investment (GDI) It consists of the outlays for additions to the fixed assets of both the private and public sectors plus the net value of inventory changes.

Gross Income It is the total income of a person, organisation or corporation in one financial year, before making any deductions.

Gross Tuning Use of monetary and fiscal policies to attempt to correct only large deviations from potential national income.

Gross Dividends These are basically the total amount of dividends that are earned by an individual or corporation in a single accounting and tax year. It must be noted that capital gains are also included in gross dividends.

Grace Period It is an interest-free period that is to be given by a creditor to a debtor after the period of the loan gets over, before initiating the process of loss recovery. The grace period depends on the amount of the loan and also the credit score of the borrower.

Ground Rent It is the amount of rent that a leaseholder pays periodically to the owner for using a piece of land.

Grant It is any type of financial aid that is given by the government.

Guarantor He is a creator of trust who takes the responsibility for the repayment of a loan.

Gum-Bonus It is the situation when a potential purchaser is entitled to receive the current bonus.

Hard Currency It refers to a currency traded in a foreign exchange market.

Hedge It is a strategy that is used to minimise the risk of a particular investment and maximise the returns of an investment. A 'hedge' strategy is most of the times implemented with the help of a hedge fund. This term has been written from the banker's point of view and may be interpreted differently in the field of finance.

Hoarding It is the term for the accumulation of (idle money balances.

Holding Company It refers to a company that controls one or more other companies, normally by holding a majority of the shares of these subsidiaries.

Hot Money It refers to funds which flow into a country to take advantage of favourable rate of interest in that country. They improve the balance of payments and strengthen the exchange rate of the recipient country.

Holding Period This is the time duration during which a capital asset is held/owned by an individual or corporation. The holding period is taken into consideration, while pledging the asset as a collateral.

Home Equity Debt It is a debt, where the borrower's house is pledged as a collateral.

Hypothecation It is a charge that is created on movable asset as security for a debt. However, the ownership as well as possession of the asset is retained with the borrower.

Import Surcharge It is a temporary increase in Import tariffs designed to correct a short-term balance of payments deficit and to stabilise the exchange rate.

Imputed Cost or Implicit Cost It is the cost attributed to using an asset which is owned by the user. It is the opportunity cost of not putting an asset to its best alternative use.

Incremental Capital-Output Ratio (ICOR) The amount of capital needed to raise output by one unit.

Index Number It is a weighted average of a number of statistical observations of some economic attribute, as a percentage of a similar weighted average calculated for the attribute at an earlier or base, period.

Indirect Tax A tax levied on a transaction that is paid by an individual by virtue of his or her association with that activity and does not vary with the circumstances of the individual who pays it.

Inter-Bank Market It is the money market in which banks borrow or lend among themselves for fixed periods either to accommodate short-term liquidity problems or for lending on. The interest rate at which funds on loan are offered to first class banks is called the Inter–Bank Offered Rate (IBOR) or in London, the London Inter-Bank Offered Rate (LIBOR).

Inactive Money It is the money which is not in circulation, *i.e.*, not on deposit or invested in other financial asseet or being used for transaction. Inactive money is also referred to as idle money or idle balances.

Instalment Contract It is a contract where the borrower, who is also the purchaser, pays a series of instalments that includes the interest of the principal amount.

Interest It is a charge that is paid by any borrower or debtor for the use of money, which is calculated on the basis of the rate of interest, time period of the debt and the principal amount that was borrowed. Interest is, sometimes, also titled as the 'cost of credit'.

Interest Rate It is the percentage of principal amount that is paid as an interest for the use of money. Usually, the interest rate is decided by a country's Central Bank, on the basis of the economic conditions.

Interchange Fee The fee that your bank pays the consumer's bank for each credit card transaction that is settled.

Joint and Several Liability This is a legal term utilised to point that two or more entities are individually and collectively responsible.

Joint Stock Company It is that form of business organisation in which the capital of the company is jointly held by a large number of people, who have purchased its shares. The joint stock companies are also known as corporated organisations or corporations.

Laissez Faire Policy It is the policy of non-interference by the state in the working of the economy. It may also be termed as least intervention policy.

Lease A contract, through which the owner (lessor) of a certain property, allows another (lessee) to use the same for a specified period, in exchange for a value called the rent.

Letter of Credit A document issued by a bank (on behalf of the buyer or the importer), stating its commitment to pay a third (seller or the exporter) a specific amount for the purchase of goods by its customer, who is the buyer. The seller has to meet the conditions given in the document and submit the relevant documents, in order to receive the payment. Letters of credit are mainly used in international trade transactions of huge amounts, wherein the customer and the supplier live in different countries.

Life Cap The upper and lower limit for changes in the borrower's interest rate over the term of his/her loan.

Listed Company It is a company whose shares are listed on the main market of the stock exchange.

Listed Security It is security listed and tradable on the stock exchange. Companies wishing to have their equity shares listed must comply with a number of requirements concerned with the disclosure of information. Besides, they must be registered.

Long-Term Debt An amount owed for a period exceeding 1 year, from the date of last balance sheet/accounting year. Otherwise known as funded debts, long–term debts refers to those loans, which become due after 1 year from the last balance sheet/accounting year. Such debts can be a bank loan, bonds, mortgage, debenture or other obligations.

Ledger Folio A set of 40 consecutive transactions in an account.

Legal Checks (Scrutiny of Title Deeds) Before disbursal of a home loan or loan against any property, usually the bank conducts a legal check on the property being offered as collateral. It involves screening all the documents etc related to the property. This is done to ensure that the property in question has a clear title.

Liability It is the responsibility for a loan or credit account. When applying for credit, a borrower agrees to be liable for any charges to his or her account, including interest, fees and finance charges. The liabilities are resources (sources of funds), which the business mobilises to acquire assets for running income. Like assets, liabilities may also be of long-term nature or short-term nature.

Maturity The term maturity is used to indicate the end of investment period of any fixed investment or security. After maturity, the investor is repaid the invested amount alongwith the interest that has been accumulated. *e.g.*, on the maturity of a 1 year fixed deposit, the invested sum alongwith the accumulated interest, is transferred by the bank to the account of the investor.

Maturity Date It is the date on which the investment or security attains maturity.

Master Card An association of banks that governs the issuing and acquiring of Master Card, Credit Card Transactions and Maestro Debit Transactions.

Managed Currency A currency is said to be managed if the exchange rate is not fixed by free market forces, *i.e.*, if the government influences the rate by buying and selling its own money or by other means.

Merchant Banks They are institutions that carry out a variety of financial services, including the acceptance of bills of exchange, the issue and placing of land and securities, portfolio and unit trust management and some banking services.

Mixed Economy It is a form of economic organisation, in which elements of capitalist economy and those of socialist economy are found mixed together.

Mixed Banking The banking system, combines commercial banking with investment banking is known as mixed banking. It is now referred to as universal banking.

Mortgage It is a legal agreement between the lender and borrower where real estate property is used as a collateral for the loan, in order to secure the payment of the debt. According to the Mortgage Agreement, the lender of the loan is authorised to confiscate the property, the moment the borrower stops paying the instalments. This agreement conveying conditional ownership of assets as a security for a loan becoming void when the debt is repaid.

Mortgage Refinance This involves the replacement of current debt with another debt with more convenient terms and conditions.

Money Laundering This means acquiring, owning, possessing or transferring any proceeds (or money) of crime or knowingly entering into any transaction related to proceeds of the crime either directly or indirectly or concealing or aiding in the concealment of the proceeds or gains of cirme, within or outside India. It is a process for conversion of money obtained illegally to appear to have originated from legitimate sources.

Multicity Cheque Cheque issued by a customer under a pre - approved arrangement with the bank whereby the bank agrees to pay them at designated centres and branches in the country.

Margin Amount It is the difference between the total cost of a project and the sanctioned loan amount.

National Savings Certificates (NSC) A bond issued by the government (Department for National Savings). There have been some 31 different issues of these certificates on which an interest, an index linked increase or a bonus are payable on maturity or earlier. The certificates can be encashed at any time and interest is tax-free.

Near Money It refers to an asset which like money acts as a store of value, but which is not immediately acceptable as a medium of exchange, *e.g.*, a building society deposit.

Net Operating Loss A total loss that is calculated for a tax year and is attributed to business or casualty losses.

Negative Amortisation When the monthly payment is unable to cover the principal and the interest due, there is a slow increase in the mortgage debt. This situation is termed as negative amortisation.

Net Tangible Assets It means fixed assets plus current assets minus intangible assets such as goodwill and minus current liabilities.

Non-liquid Asset A possession or asset which cannot be changed into cash very easily is called non–liquid asset.

Non-Plan Expenditure It includes both revenue and capital expenditure on interest payments, the entire defence expenditure, subsidies, postal deficit, policies, pensions, economic services, loans to public enterprises and loan as well as grants to State Governments, Union Territory Governments and Foreign Governments.

Non-Recourse Loan A loan which is secured by collateral and for which borrower is not personally liable, is called a non-recourse loan.

No Documentation Loan When the applicant furnishes minimum information, giving only name, address, contact information for the employer and social security number for the application of the loan, it is called a no-documentation loan.

Offline Debit Card This refers to a card which is issued by a bank and has a VISA or Mastercard logo on it. It can be issued, either instead of or alongwith a ATM card.

Oligopoly It is a type of market in which there is a relatively high degree of concentration, *i.e.*, a small number of firms account for a large proportion of output, employment etc.

Open Economy An economy that has trade relationship with other countries is called an open economy. It exports and imports things as a normal part of its activity.

Optional Money It is non-legal tender money, but it is generally accepted by the people as a medium of exchange.

Online Banking The accessing of bank information, accounts and transactions with the help of a computer through the financial institution's website on the internet, is called online banking. It is also called internet banking or e-banking.

Overdraft It is a cheque or rather an amount of cheque, which is above the balance available in the account of the payer.

Overdraft Protection A service which permits a verification account to be connected to other savings or line of credit for facilitation of protection against overdrafts is called overdraft protection.

Open End Credit This means a line of credit that can be used a number of times, upto a certain limit. Another name for this type of credit is charge account or revolving credit.

Origination Fee The charges a lender or creditor levies for processing a loan. It includes cost of loan document preparation, verification of the credit history of the borrower and conducting an overall appraisal.

Ordinary Dividends Dividends, which are a distribution of the profits of a company are called ordinary dividends.

Par Value It is the price at which a share or other security is issued, *i.e.,* the face value of the investment. A share is said to be standing above par if its quoted price on the stock exchange is greater than that at which the share was issued.

Payee I is the person to whom the money is to be paid by the payer.

Payer Payer is the person who pays the money to the payee.

Pending Transaction A transaction that has not yet beden settled.

Permanent Income Maximum amount that a person can consume per year into the indefinite future without reducing his or her wealth.

Perpetuity A bond that pays a fixed sum of money each year forever and has no redemption date. Sometime, called a consol.

Personal Disposable Income The gross income of the personal sector less all direct taxes and national contribution.

Personal Income Income earned by or paid to individuals, before deducting personal income taxes.

PIN A Personal Identification Number, typically a short alphanumeric character string, used as a password to gain access to bank or credit accounts. A PIN is usually required when performing financial transactions using a debit or credit card. It is a secret code of numbers and alphabets given to customers to perform transactions through an automatic teller machine or an ATM.

Positional Goods Goods that are necessarily scarce and whose security cannot be reduced by increased productivity *e.g.,* gold.

Positive Economics It is the economic propositions which can, at least in principle, be verified by observation of events or states of the real world that is, without reference to value judgements.

Point of Sale (PoS) Point of sale terminal is where cash registers are replaced by computerised systems.

Premium It is the difference, where positive, between the current price or value of a security or currency and its issue price or par value.

Privatisation It is the sale of government owned equity in nationalised industries or other commercial enterprises to private investors, with or without the loss of government control in these organisations.

Private Company It is a type of business organisation that permits a limited number of shareholders to enjoy limited liability and to be taxed as a company.

Previous Balance It is a outstanding amount which appears on the credit card statement on date when it is generated.

Principal It is basic amount which is invested to yield returns over a certain period of time at a given rate of interest.

Point of Sale (PoS) It refers to the location at which a payment of a card transaction occurs, usually by way of a device such as a credit card terminal or cash register.

Post Dated Cheques (PDCs) **Mode of Repayment** A payment mode wherein the customer provides Post Dated Cheques (PDCs) for the repayment of the loan dues.

Pre-Approved Credit Credit card or a line of credit that is approved based upon available data without further information supplied by the potential card member.

Pre-Closure Closure of the loan account prior to the tenure fixed for the account.

Prime Rate This is the rate on which each bank fixes its own prime lending rate for advances.

Promissory Note This is a binding legal document that a borrower signs to obtain a loan. It lists your rights and responsibilities under the loan agreement, including how and when the loan must be repaid. Rights and responsibilities for credit card accounts are listed in the Card Member Agreement.

Quick Ratio It is also called as the acid test ratio. It measures the company's liabilities and determines its assets to pay off its obligations.

Range Bonds Bonds which cease the payments because the reference rate of the bond increases or decreases, as compared to pre-determined rate on a given index.

Rate Covenant Rate covenant in a municipal bond determines the rates to be charged to buyers.

Real Exchange Rate An index of the relative prices of domestic and for foreign goods.

Real Income Real income is income expressed in terms of a general level of prices of a particular year taken as base.

Receipt A hard copy description of the transaction that occurred at the point of sale. The minimum information contained on a receipt is as follows date, merchant name and location account number, type of account used (*e.g.*, Visa, Master Card, AMEX and so on), amount, reference number and/or authorisation number and action code.

Recession It is an imprecise term given to a sharp slow down in the rate of economic growth or a modest decline in economic activity, as distinct from a lump or depression, which is a more severe and prolonged downturn. Recessions are a feature of the trade cycle.

Regressive Tax It is a tax which takes a decreasing proportion of income as income rises.

Reserve Currency It is a currency which, government an international institutions are willing to hold in their Gold and Foreign Exchange Reserves and which finances a significant proportion of international trade.

Retrieval Request A request to a merchant for documentation concerning a transaction, usually a cardholder dispute or suspicious sale or return. A retrieval request can lead to a charge back.

Refinance This means clearing the current loan with the proceeds of a new one and using the same property for collateral.

Revolving Line of Credit It is a rule followed by the lender, which binds him to allow a certain credit to the borrower.

Record Date A date set by the issuer, on which an individual must own the shares, so as to be eligible to receive the dividend.

Reconveyance In banking terms, reconveyance is transfer of property to its real owner, once the loan or the mortgage is paid off.

Redemption Fee A commission or fee paid, when an agent or an individual sells an investment such as mutual funds or annuity.

Reference Asset An asset such as debt instrument which has a credit derivative is called as a reference asset.

Reference Rate The basis of floating rate security is called as the reference rate.

Refunding The act of paying back the amount or returning the funds is called as refunding.

Reinvestment Risk The risk that arises from the fact that dividends or any yields may not be eligible for investment to earn the rate of interest is called as the reinvestment risk.

Relative Value The liquidity, risk and return of one instrument in relation to another financial instrument is the relative value.

Repossession Taking back of property by a seller or a lender from the buyer or the borrower due to default of payment.

Reserve Account An account which is maintained by depositing undistributed parts of profit for future needs is called as a reserve account.

Reserve Requirements Cash money or liquidity that member banks need to hold with the Central Bank.

Residual Value The anticipated value that a company calculates to sell its asset at the end of its full life.

Real Time Gross Settlement (RTGS) It is a system through which electronic instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations.

Recurring Billing In recurring billing, the credit cardholder authorises a merchant or vendor to charge his credit card on a regular basis.

Repo Rate It is the interest rate for secured overnight or short-term financing involving the sale and repurchase of securities. It is basically the rate at which RBI lends to commercials banks for meeting the short-term deficits. RBI varies repo rate from time to time, to achieve its monetary policy objectives.

Returned Cheque When you do not have enough available funds in your account (including any overdraft protection transfer from another account) to cover a cheque, the bank may decide not to pay the cheque and to return it to the payee. A returned item fee may be charged to your account.

Revalidation Duly authenticated extension of the validity period for negotiation/payment of cheque/draft or a negotiable instrument.

Reverse Mortgage A financial product, which provides senior citizens with funds against their home equity. Senior citizens, can get a regular amount monthly, quarterly or as a lump sum. They can live in their homes for their lifetime and after that banks can recover the amount by selling the property or if the heirs of the property want, they can claim it by repaying the dues to the bank.

Revolving Credit A credit agreement that allows consumers to pay all or part of the outstanding balance on a loan or credit card. As credit is paid off, it becomes available again to use for another purchase or cash advance.

Sales Tax It is a tax levied as a proportion of the retail price of a commodity at the point of sale.

Saving Bank It is a bank which accepts interest-bearing deposits of small amounts.

Saving Deposits Those deposits on which the bank pays a certain percentage of interest to the depositors, but the bank place certain restrictions on withdrawal.

Secondary Bank It is a financial institution which accepts deposits and makes loans, but which has relatively few branches and therefore, does not play a major role in the payments system as far as the general public is concerned.

Secured Loan A loan which is backed by a pledging of real or personal property (collateral) by the borrower to the lender.

Security Property or assets which are pledged to the lender by the borrower, as a guarantee for the repayment of a loan.

Seller Broker A person who finds a buyer for the seller of a property and aids the latter in negotiation, in lieu of a commission.

Seller Carryback A form of financing wherein the seller of a property finances the buyer, who finds it difficult to procure a loan or fails short of the amount needed to buy the property. In short, it is a part of the purchase amount which the seller offers to finance. This term is also known as carryback loan or seller's second.

Smart Cards Unlike debit and credit cards (with magnetic stripes), smart cards possess a computer chip, which is used for data storage, processing and identification.

Soft Currency It is a currency whose exchange rate is tending to fall because of persistent Balance of Payments (BoP) deficits or because of the building up of speculative selling of the currency in expectation of a change in its exchange rate.

Speculation Taking a financial position that will yield profits if prices move in a particular direction in future, but will yield losses if they move the other way.

Stagflation It means inflation associated with static or declining output and employment.

Stock Broker He is a member of the stock exchange, who buys and sells securities for clients, in return for a commission on the price of the shares.

Subsidy It refers to government grants to suppliers of goods and services. A subsidy may be intended to keep prices down (*i.e.,* to raise real incomes of buyers), to maintain incomes of producers (*e.g.,* farmers) or to maintain a service or employment.

Syndicated Loan A very large loan extended by a group of small banks to a single borrower, especially corporate borrowers. In most cases of syndicated loans, there will be a lead bank which provides a part of the loan and syndicates the balance amount to other banks.

Standing Instruction Signed instructions given by a customer to his/her bank to make regular transfer of funds for specified purposes and valid for the period indicated by the customer until the instruction is withdrawn.

Statutory Liquidity Ratio (SLR) It is the portion that banks need to invest in the form of cash, gold or government approved securities. The quantum is specified as some percentage of the total demand and time liabilities of the bank and is set by the Reserve Bank of India (also see Cash Reserve Ratio).

Stop Payment When you ask a bank not to pay a cheque or payment you have written or authorised. Stop payments are generally placed on lost or stolen cheques or on cheques related to disputed purchases. Banks usually levy charges for registering stop payment instructions.

Stored-Value Card This is a special type of credit card, which has a stored money value. Stored value card can be reloadable, in which case more money can be added to the stored value card and can be reused.

Tax A compulsory payment to government, against which there is no quid *pro quo*.

Tax Break A situation which is providing some relief from tax, In whole or part.

Tax Evasion Illegal escape from tax payment; black market incomes result from tax evasion.

Tax Shifting It refers to the phenomenon whereby those on whom taxes are leveid are able to pass the burden either partly or fully on to others.

Term Structure of Interest Rates This phrase relates to the relationship between interest rates on bonds of different due dates, generally described in the form of a chart, often known as a 'yield curve'.

Time Deposit A kind of bank deposit which the investor is not able to withdraw before a time fixed when making the deposit.

Time Value This is the sum of money that an option's premium surpasses its intrinsic worth and is also called as 'time premium'.

Total Revenue It refers to the total money receipts of a firm from the sale of a certain given quantity of output.

Trading Currency It is the currency in which international trade is invoiced.

Transfer Deed It is a legal document by which ownership of securities is transferred from the seller to the buyer.

Transfer Payments It refers to grants or other payments not made in return for a productive service, *e.g.*, pensions, unemployment benefits and other forms of income support, including charitable donations by companies.

Travellers Cheques They are printed paper carrying the promise of an international bank to pay a specified amount of money.

Travellers Cheque They are issued through banks acting as sale agents or sold directly to the public. The purchaser pays for the cheque in advance and signs them twice: once when ordering the cheque and once when cashing them.

Transaction Fee A 'per transaction' charge incurred by merchants, who are on scale pricing. This is in addition to the percentage discount fees.

Unit Banking Under the unit banking system, the banking operations are carried through single banking office rather than through a network of branches. Under this system, the area of operations as well as the size of the bank is smaller and far more limited.

Underwriter Any investment or commercial financial firm or a securities house that works with an issuing entity for the purpose of selling a new issue.

Universal Life Insurance A type of life insurance which blends term insurance protection with a savings element.

Visa An association of banks that governs the issuing and acquiring of Visa card transactions.

Wholesale Banking Banking which offers services to other corporate entities, large institutions and other financial institutions.

Withdrawals Removing of funds from a bank account is called as making a withdrawal.

Without Recourse A term which signifies that the buyer is responsible for non-performance of an asset or non-payment of an instrument, instead of the seller.

Working Capital The difference between current assets and current liabilities.

Yield The returns earned on a stock or bonds, as per the effective rate of interest on the effective date, is called as a yield in the banking terms.

Yield to Maturity (YTM) The average annual yield that an investor receives because he holds it for life or till the maturity date, is called as the yield to maturity.

Zero Balance Account A bank account which does not require any minimum balance is termed as a zero balance account.

Zero Coupon Yield Curve It is also called as spot yield curve and is used to determine discount factors.

Zero Liability Protection A bank guarantee, if your card is lost or stolen, you may not be responsible for unauthorised purchases made with your card if you report the theft promptly. The Zero Liability Protection Programme is free and automatically available on all bank consumer credit cards.

Banking Awareness

Practice Set 1

1. The basic aim of Lead Bank Scheme is that
- *(1)* big banks should try to open offices in each district
- *(2)* there should be stiff competition among the various nationalised banks
- *(3)* individual banks should adopt particular districts for intensive development
- *(4)* all the banks should make intensive efforts to mobilise deposits
- *(5)* None of the above

2. Systematic investment plans are a customer centric facility provided by which of the following?
- *(1)* Mutual funds
- *(2)* Stock brokers
- *(3)* Commercial banks
- *(4)* Post office savings schemes
- *(5)* None of these

3. On 1st March, 1992, Reserve Bank of India announced a new system of exchange rates known as
- *(1)* partial convertibility
- *(2)* liberalised exchange rate system
- *(3)* Either '1' or '2'
- *(4)* Both '1' and '2'
- *(5)* Neither '1' nor '2'

4. The number of regional offices of RBI is
- *(1)* 20
- *(2)* 21
- *(3)* 22
- *(4)* 23
- *(5)* None of these

5. The services provided by merchant bankers includes

I. management of mutual funds.

II. public issues.

III. dealing with the corporate clients and advising them on various issues.

Select the correct answer using the codes given below
- *(1)* Only I
- *(2)* I and II
- *(3)* II and III
- *(4)* All of these
- *(5)* None of these

6. Which of the following aspects are outlined by the loan policy of a bank?
- *(1)* Rating standards
- *(2)* Lending procedures
- *(3)* Financial covenants
- *(4)* All of the above
- *(5)* None of the above

7. Which of the following statements is incorrect about NBFCs?
- *(1)* An NBFC cannot accept demand deposits
- *(2)* These institutions trade in the capital market in a variety of assets and liabilities
- *(3)* An NBFC can issue cheques drawn on itself
- *(4)* Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors
- *(5)* NBFIs act as brokers of loanable funds and in this capacity they, intermediate between the ultimate saver and the ultimate investor

8. The first decimal issues of coins in 1950 in India consisted of
- *(1)* 1, 2 and 5 paise
- *(2)* 1, 2, 5 and 10 paise
- *(3)* 1, 2, 5, 10 and 25 paise
- *(4)* 1, 2, 5, 10, 25 and 50 paise
- *(5)* 1, 2, 5, 10, 25 and 50 paise along with ₹ 1

9. The investments done by "those financial entities which were launched or incorporated in a foreign country, but are investing in an Indian venture in India" are generally known as
- *(1)* patent money
- *(2)* private equity
- *(3)* foreign institutional investment
- *(4)* current account money
- *(5)* None of the above

10. Special drawing right is an international practice of drawing funds. Which of the following institutions control this special funding facility?
(1) World Bank
(2) Asian Development Bank
(3) Federal Reserve
(4) European Common Market
(5) All of the above

11. To use smart cards/debit cards/credit cards for the purchase of an item or for payment of a service at a merchant's store, the card has to be swiped in a terminal known as
(1) point of sale terminal
(2) real time terminal
(3) shopping terminal
(4) All of the above
(5) None of the above

12. Stock market indexes traditionally served as a benchmark to measure the performance of which of the following types of portfolios of the investors/promoters?
(1) Equity portfolio
(2) Tax saving instruments
(3) Mutual funds
(4) Investments in government securities
(5) All of the above

13. The RBI has adopted ……… model, in which mobile banking is promoted through business correspondents of banks.
(1) Bank Led
(2) Band Mobile
(3) Mobile
(4) All of these
(5) None of these

14. An unsecured loan extended by one corporate to another is called
(1) commercial papers
(2) treasury bill
(3) inter-corporate deposits
(4) certificates of deposits
(5) All of the above

15. Which of the following is/are known as banker's bank?
(1) SBI
(2) NABARD
(3) RBI
(4) All of these
(5) None of these

16. Services offered to government departments include all the following, except
(1) payments of salaries and pensions
(2) distributing RBI bonds to government departments
(3) direct and indirect tax collections
(4) remittance facilities
(5) None of the above

17. Since, acceptance of deposits and granting of loans are the two general functions of a bank, the relationship arising out of these two main activities is known as
(1) principal and agent relationship
(2) financer and financee relationship
(3) bailor and bailee relationship
(4) general relationship
(5) specific relationship

18. Banker-Customer relationship is often considered a fiduciary one. What is this relation based on?
(1) Contract
(2) Faith
(3) Commercial
(4) Agent and principal
(5) None of these

19. Money market instruments
(1) are usually sold in large denominations
(2) have low default risk
(3) mature in 1 year or less
(4) Both '1' and '2'
(5) All of the above

20. Which of the following agencies/organisations has recently decided that all the stock exchanges should introduce physical settlement of equity derivatives?
(1) Reserve Bank of India
(2) Bombay Stock Exchange
(3) Registrar of Companies
(4) Securities and Exchange Board of India
(5) All of the above

21. The viability of a primary credit society implies
(1) its ability to set-up a regular office of its own
(2) to appoint a full-time paid secretary
(3) to constitute reserves on the scales considered necessary and to pay a reasonable dividend on capital
(4) Both '1' and '2'
(5) All of the above

22. Which of the following is a kind of non-banking financial institutions?

(1) Equipment Leasing Company
(2) Hire Purchase Company
(3) Loan Company
(4) Investment Company
(5) All of the above

23. CRR refers to the share of .... that banks have to maintain with RBI of their net demand and time liabilities.

(1) soft cash
(2) forex reserves
(3) gold
(4) liquid cash
(5) None of these

24. In India, RBI prescribes the minimum SLR level for scheduled commercial banks in India, in specified assets as a percentage of bank's

(1) net demand and time liabilities
(2) demand liabilities
(3) time liability
(4) All of the above
(5) None of the above

25. A bank account in which a depositor can deposit his funds any number of times he likes and can also withdraw the same any number of times he wishes, is called

(1) fixed deposit account
(2) saving account
(3) current account
(4) recurring account
(5) demat account

26. Increase in remittances from non-resident Indians suggest

(1) increase in the balance of payments deficit in India
(2) reduces the balance of payments deficit in India
(3) has no effect on the balance of payments position
(4) All of the above
(5) None of the above

27. In case of a debt taken by a married woman, her husband

(1) shall be liable if the loan is taken with his consent or authority
(2) shall be liable if the debt is taken for the supply of necessaries of life to the wife, in case the husband defaults in supplying the same to her
(3) shall never be liable in any condition
(4) Both '1' and '2'
(5) None of the above

28. Very often, we read in the newspapers about various measures taken up to control the flow of the capital in the Indian markets. Who amongst the following is/are the regulators, who can control the flow of the same in India?

I. Indian Banks Association
II. RBI
III. SEBI

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) Only III
(4) II and III
(5) I and II

29. In commodity exchanges in India, Index futures are not permitted, as some of the provisions of the FCRA do not allow the same. What is the full form of FCRA?

(1) Foreign Commodities Regulation Act
(2) Forward Commodities Repurchasing Act
(3) Forward Contracts Regulation Act
(4) Financial Contracts Reformation Act
(5) None of the above

30. Section 14 of Banking Regulation Act, 1949

(1) prohibits a banking company from creating a charge upon any unpaid capital of the company
(2) contains a system of licensing of banks by the RBI
(3) provides that the subscribed capital of a banking company should not be less than one-half of its authorised capital
(4) All of the above
(5) None of the above

31. In India, Fixed Fiduciary System of note issue was in force from

(1) 1816 to 1920
(2) 1920 to 1945
(3) 1945 to 1950
(4) 1947 to 1952
(5) 1965 to 1972

32. The working and operations of NBFCs are regulated by

(1) SEBI
(2) RBI
(3) Finance Ministry, GoI
(4) IRDA
(5) None of the above

33. In which year, India adopted partial convertibility of rupee?

(1) 1991
(2) 1992
(3) 1993
(4) 1994
(5) 1952

34. Which was the first mutual fund started in India?

(1) SBI Mutual Fund
(2) Indian Bank Mutual Fund
(3) Kotak Pioneer Mutual Fund
(4) Unit Trust of India
(5) None of the above

35. Consumer banks are usually found in

(1) India and Pakistan
(2) India and UK
(3) USA and Germany
(4) China and Russia
(5) India and China

36. Which of the following is a primary function of banks?

(1) Collection and payment of cheques, rent, interest etc on behalf of their customers
(2) Buying, selling and keeping in safe custody, the securities on behalf of their customers
(3) Acting as trustees and executors of the property of their customers on their advice
(4) Remitting money from one place to the other through bank drafts or mail or telegraphic transfers
(5) Accepting deposits

37. Objective of Monetary Policy of RBI is to

(1) control inflation
(2) discourage loading of commodities
(3) encourage flow of credit into neglected sector
(4) All of the above
(5) None of the above

38. Primary (Urban) Co-operative Banks (UCBs) have been permitted to close unremunerative branches/extension counters without the Reserve Bank's prior permission provided

(1) the bank has not been placed under any directions under Section 35A of the Banking Regulation Act, 1949
(2) the bank's board should take the decision of closing down the extension counter/branch and the decision should be properly minuted in the official record of proceedings of the Board Meeting
(3) the bank should give proper notice to all existing depositors/clients of the branch through a press release in local leading newspapers as also through a circular to each constituent of the branch, well in advance of the closure of the branch
(4) All of the above
(5) None of the above

39. FIMMDA's general principles and procedures are applicable to

(1) fixed income markets
(2) money markets
(3) derivative markets
(4) All of these
(5) None of these

40. Nationalised banks have been permitted to offer their equity shares to the public to the extent of 49% of their capital as per amendments made in 1994, in

(1) Banking Regulation Act, 1949
(2) Banking Companies (Acquisition and Transfer of Undertakings) Acts 1970/1980
(3) RBI Act, 1935
(4) Nationalisation of Banks Act, 1980
(5) None of the above

41. Lot of banks in India these days, are offering M-Banking facility to their customers. What is the full form of M in M-Banking?

(1) Money
(2) Marginal
(3) Message
(4) Mutual Fund
(5) Mobile

42. How many banks are presently associates of State Bank of India?

(1) 8
(2) 7
(3) 6
(4) 5
(5) 4

43. The branding line of Bank of Baroda is

(1) International Bank of India
(2) India's International Bank
(3) India's Multinational Bank
(4) World's Local Bank
(5) None of the above

44. Many banks provide add on cards to their credit card holders. What do we understand from this?

(1) Co-branded cards are given for special benefits
(2) Duplicate card is issued when the original card is lost/misplaced
(3) Additional card is given for higher spending
(4) Additional card is issued in the name of spouse/ children as part of the main card
(5) None of the above

45. The primary function of the service cooperatives is/are

(1) provision of short and medium term credit
(2) supply of agricultural and other production requirements
(3) collection of agricultural produce for sale through the marketing society
(4) All of the above
(5) None of the above

46. A bank is under a statutory obligations to honour its customer's cheques vide

(1) Section 10 of the Banking Regulation Act, 1949
(2) Section 3 of the RBI Act, 1934
(3) Section 31 of the Negotiable Instruments Act, 1881
(4) All of the above
(5) None of the above

47. The general approach to the loaning policies and procedures of co-operative banks has been to

(1) implement the crop loan system in all its aspects
(2) allow only long-term loans to the farmers extending beyond 20 years for development on land
(3) finance for research and upgradation of agricultural inputs like seeds, manure, implements etc
(4) provide a window for marketing of agricultural produce
(5) All of the above

48. An Inter-Bank Funds Transfer System, where funds are transferred as and when the transactions are triggered, is called

(1) internet banking
(2) mobile banking
(3) bill payment service
(4) real time gross settlement
(5) None of the above

49. Which of the following lendings qualifies as a priority sector loan?

(1) Loan for purchase of gold for marriage of daughter
(2) Loan for consumer durables
(3) Housing loan
(4) Loan for purchase of tractor
(5) None of the above

50. Which is the principal institution for promotion, financing and development of small scale industries in the country?

(1) RBI
(2) SBI
(3) IDBI
(4) SIDBI
(5) None of these

Answers

1. (3)	2. (1)	3. (4)	4. (3)	5. (4)	6. (4)	7. (3)	8. (5)	9. (3)	10. (1)
11. (1)	12. (1)	13. (4)	14. (3)	15. (3)	16. (2)	17. (4)	18. (2)	19. (5)	20. (4)
21. (5)	22. (5)	23. (4)	24. (1)	25. (3)	26. (2)	27. (3)	28. (2)	29. (3)	30. (1)
31. (1)	32. (2)	33. (2)	34. (4)	35. (3)	36. (5)	37. (4)	38. (4)	39. (4)	40. (2)
41. (5)	42. (4)	43. (2)	44. (4)	45. (4)	46. (3)	47. (1)	48. (4)	49. (4)	50. (4)

Banking Awareness

Practice Set 2

1. Whenever some people wish to enter into the business world, it is a must for them to approach a bank. What services do banks provide them in this regard?

I. Banks act as payment agents by operating current accounts, paying cheques and receiving payments for them.

II. Maintaining account books for them for their day-to-day activities, so that they are not required to appoint account/finance personnel on a regular basis.

III. Lending money by way of overdraft, instalment loan, credit or advance for business activities.

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) Only III
(4) I and III
(5) All of these

2. The paid-up capital of non-scheduled bank is less than

(1) ₹ 5 lakh
(2) ₹ 10 lakh
(3) ₹ 12 lakh
(4) ₹ 15 lakh
(5) None of these

3. Which of the following is not a bank or finance company?

(1) Barclays
(2) BNP Paribas
(3) Lufthansa
(4) HSBC
(5) None of these

4. A foreign bank is one

(1) whose most of the branches are situated outside India
(2) in which atleast 40% equity shares are held by non-resident Indians
(3) which is incorporated outside India
(4) All of the above
(5) None of the above

5. How many banks are presently nationalised banks in India?

(1) 14
(2) 15
(3) 19
(4) 20
(5) 6

6. Which of the following are the scheduled banks?

(1) State Bank of Mauritius Limited
(2) HDFC Bank Limited
(3) ICICI Bank
(4) None of the above
(5) All of the above

7. Which of the following is not the part of the scheduled banking structure in India?

(1) Money lenders
(2) Public sector banks
(3) Private sector banks
(4) Regional rural banks
(5) State co-operative banks

8. BCSBI stands for

(1) Banking Codes and Standards Board of India
(2) Banking Credit and Standards Board of India
(3) Banking Codes and Service Board of India
(4) Banking Credit and Service Board of India
(5) None of the above

9. The main function of commercial bank can be segregated into

I. payment system.

II. financial intermediation.

III. financial services.

Select the correct answer using the codes given below

(1) I, II and III
(2) I and III
(3) I and II
(4) II and III
(5) None of these

10. Which of the following is not the part of the scheduled banking structure in India?

(1) Moneylenders
(2) Public Sector Banks
(3) Private Sector Banks
(4) Regional Rural Banks
(5) State Co-operative Banks

11. Which of the following statements is/are correct?

(1) SEBI was established in 1988
(2) If was made a fully autonomous body in 1992
(3) If regulates the securities market and protect the interests of investors in securities
(4) All of the above
(5) None of the above

12. Scheduled bank means a bank

(1) incorporated under the Companies Act, 1956
(2) authorised to transact government business
(3) governed by the Banking Regulation Act, 1949
(4) included in the Second Schedule to the Reserve Bank of India Act, 1934
(5) All of the above

13. The Narasimham Committee, 1991 has given which of the following major recommendations?

I. Reduction in the SLR and CRR.
II. Phasing out Directed Credit Programme.
III. The determination of the interest rate should be on the grounds of market forces such as the demand for and the supply of fund.
IV. The actual numbers of public sector banks need to be reduced.
V. Narrow banking concept where weak banks will be allowed to place their funds only in short-term and risk free as.

Select the correct answer using the codes given below

(1) I, II and V
(2) I, III, IV and V
(3) I, II, III and V
(4) II, III, IV and V
(5) I, II, III and IV

14. A company which pools money from investors and invests in stocks, bonds and shares is called

(1) a bank
(2) an insurance company
(3) bank assurance
(4) mutual fund
(5) None of the above

15. Which one of the following statements is correct about venture capital?

(1) It is a short-term investment and the returns are in the forms of interests
(2) It is a high risk venture
(3) Venture capital finances high-tech projects
(4) Both '1' and '2'
(5) All of the above

16. Which one of the following methods is currently used in India to issue note?

(1) Fixed Fiduciary System
(2) Maximum Fiduciary System
(3) Proportional Reserve System
(4) Percentage Reserve System
(5) Minimum Reserve System

17. On 25th September, 1975, rupee was de-linked from pound sterling and was linked to

(1) US dollar (2) gold
(3) basket of currencies (4) All of these
(5) None of these

18. An anna was equal to

(1) 4 paise (2) 16 paise
(3) 50 paise (4) 100 paise
(5) None of these

19. The Reserve Bank of India began production of notes in 1938, issuing ₹ 2,51,01,000 notes. ₹ 500 note was re-introduced again in

(1) 1987 (2) 2000 (3) 2003 (4) 2006
(5) 2010

20. 'Unit Banking System' is that system where an individual bank undertakes the banking business

(1) through a single office
(2) through a few branches operating within a limited area
(3) Both '2' and '3'
(4) All of the above
(5) None of the above

21. 'Branch Banking System' is one under which

(1) a large bank carries on banking business through a large network of branches spread all over the country
(2) the bank's huge financial resources enable it to carry on its activities on a large scale throughout the country
(3) Both '2' and '3'
(4) All of the above
(5) None of the above

22. Bank assurance is

(1) an insurance scheme to insure bank deposits
(2) an insurance scheme to insure bank advances
(3) a composite financial service offering both bank and insurance products
(4) a bank deposit scheme exclusively for employees of insurance companies
(5) None of the above

23. The Reserve Bank directives require UCBs to set-up a Audit Committee at the Board (ACB) level. The ACB should provide direction and oversee the operations of the total audit function in the bank and should specially focus on the follow-up of

(1) arrears in balancing of books at various branches
(2) inter-branch adjustment accounts and unreconciled long outstanding entries in inter-branch accounts
(3) frauds and all other major areas of housekeeping
(4) All of the above
(5) None of the above

24. Which of the following organisations provides credit history of the borrowers?

(1) CIBIL (2) ARCIL
(3) SEBI (4) RBI
(5) CCIL

25. Co-operative bank in India have a

(1) two-tier system
(2) three-tier system
(3) four-tier system
(4) five-tier system
(5) two-tier system in some states and three-tier system in others

26. Co-operative banks in India are registered under

I. Banking Laws (Co-operative Societies) Act, 1965.
II. Banking Regulations Act, 1949.
III. Companies Act, 1956.

Select the correct answer using the codes given below

(1) Only I (2) I and II
(3) II and III (4) I and III
(5) All of these

27. All Regional Rural Banks (RRBs) are required to maintain their entire Statutory Liquidity Ratio (SLR) in

(1) government and other approved securities
(2) current accounts with sponsor banks
(3) time deposits with sponsor banks
(4) gold holdings only
(5) All of the above

28. Under the scheme of Co-operative Agricultural Credit developed in India, the state co-operative Bank has been considered such a vital link that

(1) it has been given a status comparable to that of a scheduled bank
(2) for certain purposes, the central financing agencies have been treated as its branches
(3) Both '1' and '2' (4) All of these
(5) None of these

29. Central co-operative banks

(1) occupy a crucial importance in the co-operative credit structure
(2) form an important link between the State co-operative bank at the apex and the primary agricultural credit societies at the base
(3) are closer to the primary societies than an Apex Bank could be one
(4) None of the above
(5) All of the above

30. Which of the following mobilise (s) the savings of the public to specifically invest in the industrial securities?

(1) UTI (2) LIC
(3) GIC (4) All of these
(5) None of these

31. The State Co-operative Bank, being the Apex Bank at the state level

(1) operates as a balancing centre for the movement of the resources in the entire state

(2) acts as the custodian of the surplus resources and the reserves of the central co-operative banks and supplements them by attracting sizeable deposits and by obtaining loans from RBI

(3) provides the link between the RBI and the money market on one hand and the entire co-operative credit structure, on the other

(4) All of the above

(5) None of the above

32. Which of the following year marked the beginning of the history of agricultural co-operative banks in India?

(1) 1904 (2) 1905

(3) 1906 (4) 1907

(5) 1908

33. How many types of primary agricultural credit societies are there in our country?

(1) Large-size societies which include Rural Banks, Agricultural Banks and credit unions

(2) Service co-operative

(3) Other small size societies

(4) All of the above

(5) None of the above

34. Which of the following co-operative banks is considered as the first co-operative bank in India?

(1) Greater Bombay Co-operative Bank Limited

(2) Abhyudaya Co-operative Bank Limited

(3) Ahmedabad Mercantile Co-operative Bank Limited

(4) Amanath Co-operative Bank Limited

(5) Anyonya Co-operative Bank

35. According to the risk diversification principle of bank lending, diversification should be in terms of

(1) customer base (2) geographic location

(3) nature of business (4) All of these

(5) None of these

36. Savings account with zero balance can be opened for

(1) persons of high net worth

(2) employees of IT companies

(3) weaker sections of society

(4) women customers

(5) None of the above

37. Which one of the following does not qualify as priority sector lending by commercial banks?

(1) Software exports

(2) Small business loans

(3) Education loans

(4) Small industries loan

(5) None of the above

38. Which of the following types of institutions operate in the call money market only as lender?

(1) Commercial banks

(2) Primary dealers

(3) Insurance companies

(4) SBI

(5) None of the above

39. A bank normally does not have to deal with an issue related to

(1) payments and settlements system

(2) contractual rights of creditors

(3) intellectual property rights

(4) cases of insolvency

(5) None of the above

40. Which of the following types of accounts are known as 'Demat accounts'?

(1) Accounts which are zero balance accounts

(2) Accounts which are opened to facilitate repayment of a loan taken from the bank. No other business can beconducted from there

(3) Accounts in which shares of various companies are traded in electronic form

(4) Accounts which are operated through internet banking facility

(5) None of the above

41. The money market in India consists of two sectors namely the organised and the unorganised sector. Which of the following do not fall under unorganised sector?

(1) RBI, commercial banks and SBI

(2) LIC and GIC
(3) Unit Trust of India
(4) Indigenous banks
(5) None of the above

42. Which of the following rates is not decided by RBI?
(1) Bank rate
(2) Repo rate
(3) Reverse Repo rate
(4) Base rate
(5) Cash Reserve Ratio

43. Currently, banks claim that they have achieved 100% CBS. What are they referring to?
(1) It means all their branches are technology driven with core banking solutions
(2) It suggests complete banking services
(3) It is an indication of customised banking services
(4) All of the above
(5) None of the above

44. Which of the following is the Central Bank of the country?
(1) RBI
(2) SBI
(3) RRB
(4) NABARD
(5) None of these

45. KYC means
(1) know your customer very well
(2) know your existing customer very well
(3) know your prospective customer very well
(4) satisfy yourselves about the customer's identity and activities
(5) All of the above

46. RBI was established on
(1) 1st April, 1935
(2) 1st March, 1935
(3) 1st April, 1934
(4) 1st March, 1934
(5) None of the above

47. Banks are authorised to sell third party products. Which are these products?
(1) Mutual funds
(2) Term deposits
(3) Credit cards
(4) Gift cheques
(5) None of these

48. Bank rate as fixed by RBI, means
(1) rate of interest charged by banks from borrowers
(2) rate of interest on bank deposits
(3) rate of interest charged by RBI on its loans to banks
(4) rate of interest on inter-bank loans
(5) None of the above

49. A banker is expected to honour the cheques within the specified banking hours as per section of Negotiable Instrument Act, 1881.
(1) 22
(2) 25
(3) 30
(4) 45
(5) 65

50. Section 131 of Negotiable Instrument Act, 1881 extends protection to the
(1) paying banker
(2) collecting banker
(3) advising banker
(4) issuing banker
(5) All of these

Answers

1. (4)	2. (1)	3. (3)	4. (3)	5. (4)	6. (5)	7. (1)	8. (1)	9. (1)	10. (1)
11. (4)	12. (4)	13. (5)	14. (4)	15. (1)	16. (5)	17. (3)	18. (1)	19. (1)	20. (4)
21. (4)	22. (3)	23. (5)	24. (1)	25. (2)	26. (1)	27. (1)	28. (3)	29. (5)	30. (4)
31. (4)	32. (1)	33. (5)	34. (5)	35. (4)	36. (3)	37. (1)	38. (3)	39. (3)	40. (3)
41. (4)	42. (4)	43. (1)	44. (1)	45. (4)	46. (1)	47. (1)	48. (3)	49. (5)	50. (2)

Banking Awareness

Practice Set 3

1. Federal reserves is the financial organisation of
(1) USA
(2) Britain
(3) France
(4) Japan
(5) Germany

2. The legal relationship between a bank and its customer is a kind of
I. debtor and creditor.
II. principal and agent.
III. pledgor and pledgee.
IV. mortgagor and mortgagee.

Select the correct answer using the codes given below
(1) I and III
(2) I, III and IV
(3) I, II, III and IV
(4) I and II
(5) I, II and III

3. Which of the following is not a public sector bank?
(1) State of Hyderabad
(2) Central Bank of India
(3) Regional Rural Bank
(4) HDFC Bank
(5) None of the above

4. What does EMT indicate in the context of a bank loan?
(1) Equal monetary incentive
(2) Equated monthly instalment
(3) Exact monthly indicator
(4) Exact mean index
(5) None of the above

5. Which of the following statements is incorrect about negotiable instruments?
(1) Pay A or Order
(2) Pay to Order of A
(3) Pay A and B
(4) Pay A only
(5) Pay Bearer

6. Which of the following is not a negotiable instrument?
(1) Promissory note
(2) Bill of exchange
(3) Cheque
(4) Bank draft
(5) Share certificate

7. Axis Bank is a
(1) public sector bank
(2) private sector bank
(3) co-operative bank
(4) foreign bank
(5) gramin bank

8. The Reserve Bank of India keeps on changing various ratios/rates frequently. Why is this done?
I. To keep inflation under control.
II. To ensure that Indian rupee does not lose its market value.
III. To ensure that banks do not earn huge profits at the cost of public money.

Select the correct answer using the codes given below
(1) Only I
(2) Only II
(3) Only III
(4) All of these
(5) None of these

9. Many times, we hear about the 'Banking Ombudsman'. What is/are the major roles of same?
I. Banking Ombudsman is a quasi-judicial authority having powers to summon, the banks and the customers both in case of dispute.
II. The Banking Ombudsman are appointed by the President of India and are retired judges of the High or Supreme Courts.
III. The decisions/judgements given by the Banking Ombudsman cannot be taken to any court of justice as their decisions are last in case of bank related problems disputes.

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) Only III
(4) All of these
(5) None of these

10. The US Federal Reserves had recently reduced the interest rates by 150 basis points in the last few months. This was done because

(1) US was going into recession
(2) inflation was high in countries like India and China, hence a correction in economic policies by all the countries was needed
(3) Euro had become more attractive currency, hence US wanted to save dollars from further depreciation
(4) Iraq had become a very lucrative destination for foreign investment. US does not want it to happen
(5) None of the above

11. Law of Limitation is not applicable in respect of

(1) advance against pledge of shares
(2) CC granted against hypothecation of inventory
(3) term loan secured by mortgage of plant and machinery
(4) bank term deposit
(5) None of the above

12. Which of the following is not an obligation of bank towards its customer?

(1) Pay bills as per the instructions of the customer
(2) Act as per the directions given by the customer
(3) Submit periodical statements, *i.e.*, informing customers of the state of the account
(4) Not to set off three debt owed to him by a creditor from the credit balances held in other accounts of the borrower
(5) Maintain secrecy of accounts

13. As reported in various newspapers, many banks have revised their interest rates on home loans, car loans and other such loans. Which of the following phenomenon prompted these banks to make such an upward revision in their interest rates ?

I. RBI has revised the CRR and other such rates upward, which has created a liquidity crunch in the market.

II. Stock markets in the country are showing very high fluctuations as visible through their indexes. As a result, banks have lost a huge amount of money in trading. Banks now want to recover that money by increasing their interest rates.

III. Banks are in need of a huge amount of money, as they have to give revised pay to all its employees.

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) Only III
(4) All of these
(5) None of these

14. Open market operations, one of the measures taken by RBI in order to control credit expansion in the economy, means

(1) sale or purchase of government securities
(2) issuance of different types of bonds
(3) auction of gold
(4) to make available direct finance to borrowers
(5) None of the above

15. Which of the following could be considered as an initiative towards promotion of financial inclusion?

(1) Opening of no frills accounts
(2) Appointing business correspondents for servicing rural customers
(3) Opening of bank branches in unbanked districts
(4) All of the above
(5) None of the above

16. As per the notification issued by the banks, the 'third party ATM usage' will now be restricted to certain withdrawals and limits only. What does it really mean?

I. The ATM card holders will not be able to withdraw from other banks' ATMs under any circumstances.

II. Customers of one bank may be able to withdraw only a limited amount from other banks' ATMs.

III. ATM card holders will have to pay a fee if they withdraw money from other banks' ATMs frequently.

Select the correct answer using the codes given below

(1) Only I (2) Only II
(3) Only III (4) II and III
(5) I and III

17. Financial inclusion makes people to

(1) access financial markets
(2) access credit markets
(3) learn financial matters
(4) All of the above
(5) None of the above

18. The most prominent national level micro finance apex organisation providing micro credit services for women in India is

(1) National Credit Fund for women
(2) Mahila Samridhi Kosh
(3) Rural Women Self Help Group
(4) All of these (5) None of these

19. What is not an innovation likely to explain the high repayment rates of Micro Credit Programmes?

(1) Promising larger and larger loans for borrowers in good standing
(2) Public repayments
(3) Strong competition between numerous Micro Credit Programmes to reduce interest rates
(4) Starting repayments before investments are likely to have borne fruit
(5) None of the above

20. SHG Bank Linkage Programme, initially launched by

(1) RBI (2) NABARD
(3) SBI (4) RRBs
(5) Finance Ministry

21. Which of the following sections of people is not financially excluded?

(1) Marginal farmers
(2) Salaried persons
(3) Landless labourers
(4) Self employed and unorganised sector enterprises
(5) Urban slum dwellers

22. Recent initiatives for financial inclusion in India include

I. 'no frill' account for retail purpose.
II. simplified KYC (Know Your Customer).
III. Credit Counselling Centre (CCC) facilities.
IV. extension of smart cards.

Select the correct answer using the codes given below

(1) I and II (2) II and III
(3) III and IV (4) I and IV
(5) All of these

23. Narasimham Committe recommended to reduce SLR and CRR to

(1) 25% and 3.5% respectively
(2) 24% and 3.5% respectively
(3) 25% and 3% respectively
(4) 20% and 5% respectively
(5) 25% and 5% respectively

24. Which of the following is incorrect about Non-Banking Financial Companies (NBFCs)?

(1) NBFC cannot accept demand deposits
(2) NBFC is not a part of the payment and settlement system
(3) NBFC can issue cheques drawn on itself
(4) NBFCS are fast emerging segment of Indian financial system
(5) None of the above

25. What is the full form of 'NBFC' as used in the financial sector?

(1) New Banking Finance Company
(2) National Banking and Finance Corporation
(3) New Business Finance and Credit
(4) Non-Business Fund Company
(5) None of the above

26. The branding line of Bank of Baroda is

(1) International Bank of India
(2) India's International Bank
(3) India's Multinational Bank
(4) World's Local Bank
(5) None of the above

27. In economics, it is generally believed that the main objective of a public sector financial company like bank is to

(1) employ more and more people
(2) maximise total profits

(3) maximise total production
(4) provide financial service to the people of the nation of its origin across the country
(5) sell the goods at subsidised cost

28. Bank assurance is
(1) an insurance scheme to insure bank deposits
(2) an insurance scheme exclusively for the employees of banks
(3) a composite financial service offering both banking and insurance products
(4) a bank deposit scheme exclusively for employees of insurance companies
(5) None of the above

29. Which of the following schemes is launched specifically for helping senior citizens to avail loan by mortgage of their residential property?
(1) English Mortgage Scheme
(2) Senior Capital Loan Scheme
(3) Reverse Mortgage Loan Scheme
(4) Senior Citizen Personal Loan Scheme
(5) None of the above

30. Obligation of a banker to maintain secrecy is applicable to
(1) only in case of existing deposit accounts
(2) only in case of existing loan accounts
(3) only in case of closed accounts
(4) in all types of deposit/loan accounts (existing/closed)
(5) None of the above

31. Banking Ombudsman Scheme is applicable to the business of
(1) all scheduled commercial banks excluding RRBs
(2) all scheduled commercial banks including RRBs
(3) only public sector banks
(4) all banking companies
(5) all scheduled banks except private banks

32. Which of the following is not required for opening a bank account?
(1) Identity proof
(2) Address proof
(3) Recent photographs
(4) Domicile certificate
(5) None of the above

33. Base rate is the rate below which no bank can allow their lending to anyone. Who sets-up this 'Base rate' for banks?
(1) Individual Banks' Board
(2) Ministry of Commerce
(3) Ministry of Finance
(4) RBI
(5) Interest Rate Commission of India

34. A bank normally does not have to deal with an issue related to
(1) payments and settlement systems
(2) contractual rights of creditors
(3) intellectual property rights
(4) cases of insolvency
(5) coordination between regulators active in banking/ financial sectors

35. In context of business and banking, what is CRAR?
(1) Capital to Risk Asset Ratio
(2) Credit to Risk Asset Ratio
(3) Credit to Risk Assessment Ratio
(4) Capital to Risk Assessment Rate
(5) Credit Rate Assessment Ratio

36. Which of the following is not a part of the scheduled banking structure in India?
(1) State co-operative banks
(2) Public sector banks
(3) Private sector banks
(4) Regional rural banks
(5) Moneylenders

37. Which of the following is a retail banking product?
(1) Home loans
(2) Working capital finance
(3) Corporate term loans
(4) Infrastructure financing
(5) Export credit

38. Which of the following statements about insurance Business in India is incorrect?
(1) Oriental Life Insurance Company was the first Life Insurance Company on Indian soil
(2) Bombay Mutual Life Assurance Society was the first Indian Life Insurance Company
(3) The Life Insurance Companies Act and the Provident Fund Act were passed in 1949

(4) The Insurance Regulatory and Development Authority was established in the year, 1999

(5) From 21st March, 2003, GIC ceased to be a holding company of its subsidiaries

39. Which of the following is not a banking related term?

(1) Radiation
(2) Outstanding amount
(3) Benchmark prime lending rate
(4) Explicit guarantee
(5) None of the above

40. Life insurance in its modern form came to India from England in the year

(1) 1818 (2) 1896 (3) 1905 (4) 1907
(5) 1919

41. By taking out insurance cover, an individual

(1) reduces the cost of an accident
(2) reduces the risk of an accident
(3) transfers the risk to someone else
(4) converts the possibility of large loss to certainty of a small one
(5) reduces the certainty of major loss

42. Which of the following terms is used in the field of banking and finance?

(1) Special drawing rights
(2) Affirmative defence
(3) Civil procedure
(4) Informed consent
(5) Question of fact

43. Consider the following statements

I. If the beneficiary of a cheque has lost the cheque, he can instruct the paying bank to stop payment of the cheque without waiting for the account holder's instructions.

II. While outsourcing, the only consideration should be cost savings.

Which of the statements given above is/are correct?

(1) Only I
(2) Only II
(3) Both I and II
(4) Neither I nor II
(5) Either I or II

44. Who decides on the quantity of coins to be minted?

(1) The Government of India
(2) RBI
(3) SBI
(4) All of the above
(5) None of the above

45. The objectives of forming SHG is/are

I. to build mutual trust and confidence between the bankers and the rural poor people.

II. to encourage banking activities, both on the thrift as well as credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.

III. to meet the needs of the poor by combining the flexibility, sensitivity and responsiveness of the Informal Credit System with the strength of technical and administrative capabilities and financial resources of the formal credit institutions.

Select the correct answer using the codes given below

(1) Only I
(2) I and II
(3) I and III
(4) II and III
(5) All of the above

46. Nationalisation of banks aimed at all of the following, except

(1) provision of adequate credit for agriculture, SME and exports
(2) removal of control by a few capitalists
(3) provision of credit to big industries only
(4) access of banking to masses
(5) encourgement of a new class of entrepreneurs

47. Under Bretton Woods System, as a member of IMF, India declared its par value of rupee in terms of

(1) British pound
(2) US dollar
(3) a basket of currency
(4) gold
(5) None of the above

48. Which of the following is not a payment in due course?

(1) Payment made in accordance with the apparent tenor of the instrument

(2) A payment is made on an instrument before the date of maturity

(3) Payment is made to a person who is in possession of the instrument either as a holder or a person authorised to receive payment on behalf of holder

(4) Payment made in good faith and without negligence

(5) Payment made to a person in possession of an instrument payable to bearer or one that is endorsed in blank

49. The primary issuers of capital market securities includes which of the following?

(1) The Central Government

(2) The Local Government

(3) Corporations

(4) Central and Local Governments and Corporations

(5) Local Government and Corporations

50. Which of the following statements about the money market is/are true?

(1) Not all commercial banks deal for their customers in the secondary market

(2) Money markets are used extensively by businesses both to warehouse, surplus funds and to raise short-term funds

(3) The single most influential participant in the US money market is the US Treasury Department

(4) Both '1' and '2'

(5) All of the above

Answers

1. (1) 2. (3) 3. (4) 4. (2) 5. (4) 6. (4) 7. (2) 8. (1) 9. (1) 10. (1)
11. (4) 12. (4) 13. (1) 14. (1) 15. (4) 16. (4) 17. (4) 18. (1) 19. (3) 20. (2)
21. (2) 22. (5) 23. (1) 24. (3) 25. (5) 26. (2) 27. (4) 28. (5) 29. (3) 30. (4)
31. (2) 32. (4) 33. (1) 34. (3) 35. (1) 36. (5) 37. (1) 38. (3) 39. (1) 40. (1)
41. (3) 42. (1) 43. (4) 44. (1) 45. (5) 46. (3) 47. (4) 48. (2) 49. (4) 50. (4)

Banking Awareness

Practice Set 4

1. What does EBT stands for?

(1) Electronic Beleted Transfer
(2) Electronic Beginners Transaction
(3) Electronic Benefit Transfer
(4) Electronic Beginning Transaction
(5) None of the above

2. Under which section of the Reserve Bank of India Act, the Reserve Bank has the sole right of note issue?

(1) Section 20
(2) Section 22
(3) Section 25
(4) Section 28
(5) Section 30

3. Which of the following is not a method of credit control?

(1) Cash reserve ratio
(2) Open market operations
(3) Credit deposit ratio
(4) Bank rate policy
(5) None of the above

4. In which year, did the Insurance Regulatory and Development Authority come into force?

(1) 1999
(2) 2000
(3) 2001
(4) 1991
(5) 1993

5. Which of the following is not the essential requirement for the endorsement as per Negotiable Instrument Act, 1881?

(1) It should be on the instrument
(2) It should be made by the holder or the maker
(3) Signatures should be in ink and not by pencil or rubber stamp
(4) It should contain unconditional order
(5) The endorser should sign the endorsement in the same style and with the same spellings as written in the instrument

6. The Central Government has extened the cover of Rashtriya Swasthya Bima Yojana (RSBY) to beedi workers and

(1) carpenters
(2) cobblers
(3) school children
(4) domestic workers
(5) All of these

7. The merit of issuing notes with RBI can be seen is

(1) uniformity
(2) stability in currency
(3) control of credit
(4) All of the above
(5) None of the above

8. The tenure of a Director of a Limited Company has expired. Bank received a cheque signed by the Former Director. The bank

(1) can honour the cheque only after obtaining confirmation from other Directors
(2) can honour the cheque
(3) cannot honour the cheque
(4) All of the above
(5) None of the above

9. The UTI was established in

(1) 1956
(2) 1964
(3) 1972
(4) 1976
(5) None of these

10. Banks need liquidity to meet which of the following objectives of banking?

I. To meet deposit withdrawal.
II. To fund loan demands.
III To maintain public confidence.

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) Only III
(4) I and II
(5) II and III

11. Which of the following statements is correct about soiled/mutilated note?

(1) All banks are authorised to accept soiled notes across their counters and pay the exchange value

(2) Banks are expected to offer this service even to non-customers

(3) All public sector bank branches and currency chest branches of private sector banks are authorised to adjudicate and pay value in respect of mutilated notes

(4) The RBI has also authorised all commercial bank branches to treat certain notes in 'two pieces' as soiled notes and pay exchange value

(5) All of the above

12. The Reverse Mortgage Scheme is launched to give benefit to which of the following groups of the society?

(1) Government employees

(2) Senior citizens (3) Unemployed youth

(4) War widows (5) None of these

13. What is the full form of IRR as used in banking/financial sector?

(1) Internal Rate of Return

(2) Internal Revaluation Reserve

(3) Investment Reserve Ratio

(4) Internal Risk Return

(5) None of the above

14. Opening of maximum number of ATMs is an example of

(1) indirect marketing (2) direct marketing

(3) social marketing (4) All of these

(5) None of these

15. Which among the following is related to bank risks?

(1) Deposits (2) Bank funds (3) NPA

(4) All of these (5) None of these

16. What do you understand by 'Para Banking' services?

(1) Eligible financial services rendered by banks

(2) Utility services provided by banks

(3) Services provided through business correspondents

(4) Services provided to armed force personnel

(5) None of the above

17. Banks are authorised to sell third party products. Which are these products?

(1) Mutual funds (2) Term deposits

(3) Debit cards (4) Gift cheques

(5) None of these

18. Why are interest rates charged by Micro Finance Institutions (MFIs) higher than lending rates of banks?

(1) MFIs are not allowed to source deposits from public

(2) Banks have the benefit of cheaper funds

(3) MFIs borrow bulk of their funds from banks

(4) MFIs borrow funds from banks at high cost and also their administrative expenses are more

(5) None of the above

19. Which of the following is an example of 'restrictive crossing'?

(1) Not negotiable

(2) State Bank of India

(3) A/c payee (4) Company

(5) Two transverse parallel lines simply drawn across the face of the cheque

20. The Rashtriya Mahila Kosh (RMK) is working exclusively for

(1) poor women (2) rural women

(3) urban women (4) All of these

(5) None of these

21. Telebanking service is based on

(1) virtual banking

(2) online banking

(3) voice banking

(4) core banking

(5) None of the above

22. Which of the following is true?

(1) NBFCs can accept deposits from the public

(2) NBFCs cannot offer deposit schemes to the public

(3) Deposits of NBFCs are insured with DICGC

(4) NBFCs can accept deposits from public if they are registered and permitted by RBI

(5) None of the above

23. Which of the following is a prerequisites for transfer of a negotiable instrument?

(1) Crossing (2) Acceptance
(3) Noting with a notary
(4) Blank endorsement
(5) Mere delivery or endorsement and delivery

24. The Narasimham Committee II was set-up to suggest some recommendations for improvement in the

(1) efficiency and productivity of the financial institution
(2) banking reform process
(3) export of IT sector
(4) fiscal reform process
(5) None of the above

25. Which of the following steps is taken for financial inclusion in India?

(1) The expansion of network of co-operative banks to provide credit to agriculture and saving facilities in rural areas
(2) Nationalisation of banks in 1969 and expansion of branches
(3) Creation of an elaborate framework of priority sector lending with mandated targets as part of a strategy to meet the savings and credit needs of large sections of the Indian population, who had no access to institutional finance
(4) All of the above
(5) None of the above

26. What is not a potential limit of group lending?

(1) Monitoring group members can be costly for borrowers
(2) Group lending uses social sanctions instead of collateral foreclosure
(3) Group lending brings added risks for borrowers, those of other members default
(4) Exclusion of all group members after one of them default is too harsh a punishment
(5) None of the above

27. The best alternative banking service to branch banking to be the part of financial inclusion?

(1) Establishment of small branches
(2) Set-up ATMs
(3) Issuing of ATM cards
(4) Giving credit cards
(5) Mobile banking

28. Till what amount are deposits of public in NBFCs insured?

(1) ₹ 1 lakh (2) ₹ 50000
(3) Not insured (4) None of these
(5) All of these

29. In case of a debt taken by a married woman, her husband will be liable for debt only if the debt is taken

(1) with his consent or authority
(2) for the supply of necessaries of life to the wife, in case the husband defaults in supplying the same to her
(3) Both '1' and '2' (4) Either '1' or '2'
(5) None of these

30. Which of the following statements is incorrect regarding a minor?

(1) A minor is a person who has not attained the age of 18
(2) Minor does not have legal capacity to enter into a contract
(3) A current account in the name of minor can be opened when guardian of the minor operates this account
(4) A minor's account should never be allowed to be overdrawn
(5) In the event of death of a minor, the money will be payable to the guardian

31. From the given options, bring out the one which is not a function/power of Reserve Bank of India?

(1) To assume the responsibility of meeting directly or indirectly all reasonable demands for accommodation
(2) To hold cash reserves of the commercial banks and make available financial accommodation to them
(3) To enjoy monopoly of the note issue
(4) To assume responsibility of all banking operations of the government
(5) To assume the responsibility of statistical analysis of data related to macro economy of India

32. Which of following institutions regulate non-banking financial companies?

(1) RBI (2) SEBI
(3) IRDA (4) Finance Ministry
(5) None of these

33. The financial assistance or loans of ₹ 10000 by a bank to a small borrower will be called
(1) business finance
(2) government finance
(3) micro finance
(4) small finance
(5) KYC finance

34. Interest is calculated on actual 365 days basis, in respect of the following products, except
(1) call money
(2) notice money
(3) term money
(4) GoI dated securities
(5) None of these

35. Banks have the lowest lending levels in the .... part of India.
(1) Central
(2) North -Eastern
(3) Southern
(4) Western
(5) Northern

36. Co-operative development bank was set-up by
(1) NABARD
(2) RBI
(3) SBI
(4) Central Government
(5) None of these

37. Which of the following were the first rulers in India to issue coins which can be definitely attributed to the kings?
(1) Shakas
(2) Kushana
(3) Indo-Greeks
(4) Parthians
(5) None of these

38. All venture Capital Funds must be registered with
(1) RBI
(2) SEBI
(3) Registrar of Companies
(4) Either '1' or '2'
(5) None of the above

39. RBI has deregulated interest rate for savings accounts. What does it suggest?
(1) Customers will get the benefit of higher interest rates
(2) Banks will have the right to fix their interest rates independently
(3) Each bank will have their respective interest rates without the need to adhere to fixed interest rate common to all banks
(4) Banks will decide interest rates for individual customers according to their savings pattern
(5) None of the above

40. Government security that is a claim on the government and is a secure financial instrument which guarantees of both capital and interest, is called
(1) coupon security
(2) gilt-edged security
(3) corporate security
(4) All of the above
(5) None of the above

41. Kisan Credit Cards are an effective way of reaching out to the farmers by the banks. What assistance does the farmer receive in this way?
(1) Credit facility for crops etc against an approved limit
(2) Short-term credit facility against value of his crops
(3) Long-term credit is provided against his land holdings
(4) Loan is permissible against crops sold, but payment yet to be received by the farmer
(5) None of the above

42. Which of the following is a characteristic of a capital market instrument?
(1) Liquidity
(2) Marketability
(3) Long maturity
(4) Liquidity premium
(5) All of the above

43. The gilt-edged market refers to the market for
I. government securities.
II. semi-government securities.
III. corporate securities.

Select the correct answer using the codes given below
(1) OnlyI
(2) I and II
(3) II and III
(4) I, II and III
(5) Only III

44. Bank loan against property requires the asset to be free from encumbrances. What does it mean?
(1) The asset to be free from any liability
(2) The asset to be properly registered
(3) The property to be fully constructed
(4) The asset should not have multiple owners
(5) None of the above

45. Which of the following is not considered as an instrument negotiable by custom or usage?

(1) Delivery orders for goods
(2) Railway receipts for goods
(3) Hundi
(4) Government promissory notes
(5) Cheques

46. In bank's parlance, credit risk in lending is

(1) default of the banker to maintain CRR
(2) default of the banker to maintain SLR
(3) default of the banker to release credit to the customer
(4) default of the customer to repay the loan
(5) None of the above

47. One single statement that depicts the financial position of a bank and/or business enterprise at a given point time is called

(1) Statement of Product Details
(2) Reconciliation Statement
(3) Balance Sheet
(4) Quarterly Returns submitted to RBI
(5) Trading and Manufacturing account

48. Expand the term BCBS.

(1) Bank's Committee on Banking Supervision
(2) Basel Committee on Banking Supervision
(3) Bank's Commission on Banking Supervision
(4) Basel Commission on Banking Supervision
(5) None of the above

49. Which of the following will set-up core bank infrastructure for rural banks?

(1) SIDBI
(2) IBA
(3) RBI
(4) SBI
(5) NABARD

50. A money deposited in a bank that cannot be withdrawn for a preset fixed period of time is known as a

(1) term deposit
(2) checking account
(3) savings bank deposit
(4) no frills account
(5) current deposit

Answers

1. (3)	2. (2)	3. (3)	4. (2)	5. (4)	6. (4)	7. (4)	8. (2)	9. (2)	10. (3)
11. (5)	12. (2)	13. (1)	14. (2)	15. (3)	16. (1)	17. (1)	18. (4)	19. (3)	20. (1)
21. (3)	22. (4)	23. (5)	24. (2)	25. (4)	26. (2)	27. (5)	28. (3)	29. (3)	30. (3)
31. (1)	32. (1)	33. (3)	34. (4)	35. (2)	36. (1)	37. (3)	38. (2)	39. (3)	40. (2)
41. (1)	42. (5)	43. (2)	44. (1)	45. (5)	46. (4)	47. (3)	48. (2)	49. (5)	50. (1)

Banking Awareness

Practice Set 5

1. The Monetary and Credit Policy of India is the responsibility of which of the following?
(1) Planning Commission
(2) Finance Ministry (3) RBI
(4) National Advisory Council
(5) None of these

2. The Securitisation And Reconstruction of Financial Assets and Enforcement of Security Interests Act (SARFAESI Act) at present is not applicable to
(1) public sector banks
(2) financial institutes of the government
(3) private banks
(4) non-banking financial companies
(5) small and co-operative banks

3. The rate of interest on Savings Bank Account stipulated by
(1) the concerned bank (2) RBI
(3) Indian Banks Association
(4) Government of India
(5) Banking Codes and Standards Board of India

4. Which of the following acts was framed specially to deal more effectively with the problem of non-performing assets in banking system?
(1) Companies Act
(2) Banking Regulation Act
(3) Foreign Exchange Management Act
(4) Industrial Dispute Act
(5) SARFAESI Act

5. Mahesh and Suresh are friends aged 14 and 15 respectively. They want to open a joint account in your bank. You will
(1) allow them to open a joint account to be operated jointly
(2) allow them to open a joint account with operating instructions either or survivor
(3) allow them to open a joint account with operating instructions former or survivor
(4) allow them to open a joint account with operating instructions any one or survivor
(5) None of the above

6. Loan and advances a bank, come under which of the following category?
(1) Assets (2) Liabilities (3) Costs
(4) All of these (5) None of these

7. Which of the following is an effort in the direction of financial inclusion?
(1) Internet banking (2) Anywhere banking
(3) No frills accounts
(4) Foreign currency accounts
(5) All of these

8. Which of the following statements is correct?
(1) RBI is just like any ordinary commercial bank
(2) RBI is responsible for the overall Monetary Policy
(3) The Fiscal Policy of India is approved by RBI
(4) RBI has Deputy Chairman Planning Commission on its board
(5) None of the above

9. Mangalam village became the first village in India where all households were provided banking facilities. Mangalam village is situated in which of the following Union Territories?
(1) Delhi (2) Chandigarh
(3) Puducherry (4) Daman and Diu
(5) Andaman Nicobar

10. Which of the following products of a bank is specifically designed to provide financial help to children in their higher studies in India or in a foreign nation?
(1) Personal loan (2) Corporate loan
(3) Educational loan (4) Mortgage loan
(5) None of these

11. Inflation in India is measured on which of the follow indexes/indicators?
(1) Cost Of Living Index (COLI)
(2) Consumer Price Index (CPI)
(3) Gross Domestic Product (GDP)
(4) Wholesale Price Index (WPI)
(5) None of the above

12. Which of the following is a payment and settlement system used by the banks in India?
(1) Liquidity adjustment facility
(2) Real time gross settlement
(3) Forward rate agreements
(4) Central depository service
(5) Negotiated dealing system

13. Which of the following is not an activity of merchant banking in India?
(1) The management of the customers securities
(2) The management of the portfolio
(3) The managemnt of projects and counselling as well as appraisal
(4) The management of underwriting of shares and debentures
(5) None of the above

14. 'Sub-Prime Lending' is a term applied to the loans made
(1) those borrowers who do not have a good credit history
(2) those who wish to take loan against the mortgage of tangible assets
(3) those who have a good credit history and are known to bank since 10 years
(4) those borrowers who are most preferred customers of the bank
(5) None of the above

15. A Universal Bank may undertake multifarious financial services under one roof, *e.g.*,
(1) receiving money on current or deposit accounts and lending of money for trade, industries, exports, agriculture etc
(2) mortgage financing, project financing, infrastructure lending, asset securitisation, leasing, factoring etc
(3) remittance of funds, custodial services, credit/debit cards, collection of cheques/bills etc
(4) All of the above
(5) None of the above

16. The Securities and Exchange Board of India (SEBI) recently imposed a restriction on money flow in equity through 'P-Notes'. What is the full form of 'P-Notes'?
(1) Permanent Notes (2) Purchase Notes
(3) Participatory Notes (4) Private Notes
(5) None of these

17. Which of the following is incorrect about the acceptance of deposits by the NBFCs?
(1) They are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months
(2) They cannot accept deposits repayable on demand
(3) They should have minimum investment grade credit rating
(4) Their deposits are not insured
(5) The repayment of deposits by NBFCs is guaranteed by RBI

18. IFRS stands for
(1) International Financial Reporting Standards
(2) Indian Financial Rating Standards
(3) International Financial Rating Standards
(4) Indian Functional Reporting Standards
(5) None of the above

19. Which of the following is the directive given to the Government of India in the Financial Stability Report submitted to it?
(1) To focus on financial consistency
(2) To reduce fiscal deficit
(3) To ensure GDP growth
(4) To reduce revenue deficit
(5) None of the above

20. Normally, banks accept fixed deposits for a maximum period of
(1) 5 years (2) 3 years (3) 7 years
(4) 20 years (5) 10 years

21. What is meant by 'underwriting', the term frequently used in financial sector?
(1) Undervaluation of the assets
(2) The act of taking on a risk for a fee
(3) Giving a guarantee that a loan will not become a bad loan
(4) The act of permission to float an IPO
(5) None of the above

22. Bridge loans refer to

(1) loans granted to construction companies for construction of bridges

(2) loan granted to PWD for construction of bridges over rivers

(3) interim finance allowed by banks to their customers, pending disbursement of term loans by financial institutions

(4) loan granted to railway for construction of bridges

(5) None of the above

23. According to the guidelines, the Reserve Bank of India will consider proposals for merger and amalgamation of urban co-operative banks when

(1) the net worth of the acquired bank is positive and the acquirer bank assures to protect entire deposits of all the depositors of the acquired bank

(2) the net worth of acquired bank is negative, but the acquirer bank on its own assures to protect deposits of all the depositors of the acquired bank

(3) the net worth of the acquired bank is negative and the acquirer bank assures to protect the deposits of all the depositors with financial support from the State Government extended up front as part of the process of merger

(4) All of the above

(5) None of the above

24. Which of the following is not a part of the scheduled banking structure in India?

(1) Moneylenders

(2) Public sector banks

(3) Private sector banks

(4) Regional rural banks

(5) State co-operative banks

25. How are minors encouraged to save money by banks?

(1) By opening account in the name of minor

(2) By allowing savings account to minors under guardianship

(3) By allowing them to come to the bank for depositing money

(4) By going to schools

(5) None of the above

26. Net balance maintained in current account by co-operative banks with ...... are not treated as cash for the purpose of CRR/SLR.

(1) State Bank of India

(2) State Bank of Hyderabad

(3) IDBI Bank Limited

(4) Canara Bank (5) All of these

27. The earliest efforts in the direction of setting up special land mortgage banks were made in

(1) West Bengal when the first Co-operative Land Mortgage Bank was organised in 24 Parganas in 1884

(2) in Punjab when the first Co-operative Land Mortgage Bank was organised in Jhang in 1920

(3) Orissa when the first Co-operative Land Mortgage Bank was organised in Jhang in 1834

(4) All of these (5) None of these

28. The right to retain possession only of those goods in respect of which the dues have arisen is called

(1) particular lien (2) general lien

(3) right of set off (4) All of these

(5) None of these

29. Which one of the following is a capital market instrument?

(1) A treasury bill

(2) A negotiable certificate of deposit

(3) Commercial paper (4) All of these

(5) None of these

30. Which of the following schemes available in the financial markets is not meant for investment purposes?

(1) National savings certificates

(2) Infrastructure bonds

(3) Mutual funds (4) Letter of credit

(5) All of these

31. Land development banks provide long-term credit for schemes of basic importance to agriculture as

(1) minor irrigation purposes like wells, dug-cum-bore wells, tubewells, pump sets and irrigation tanks

(2) mechanisation of agriculture *i.e.*, loans for purposes of tractors, power tillers, threshers etc

(3) land reclamation, soil conservation, plantation of fruit orchards, dairy development schemes etc involving heavy expenditure

(4) Both '1' and '2' (5) All of these

32. The RBI is not expected to perform the function of
    - (1) the banker to the government
    - (2) accepting deposit from commercial banks
    - (3) accepting deposits from general public
    - (4) issuer of currency (5) None of these

33. By virtue of the amendment carried out by the Regional Rural Bank (Amendment) Act, 1987, the Chairman of a Regional Rural Bank (RRB) is to be appointed by
    - (1) Central Government
    - (2) State Government
    - (3) sponsor bank in consultation with NABARD
    - (4) Reserve Bank of India
    - (5) None of the above

34. How does a bank establish the identity of a customer?
    - (1) By getting introduction of an existing customer
    - (2) By following KYC norms
    - (3) By taking AADHAR card copy
    - (4) All of the above
    - (5) None of the above

35. Basel I, which was issued in 1988, focuses on the
    - (1) capital adequacy of financial institutions
    - (2) improvement of the banking sector's ability to deal with financial and economic stress
    - (3) technology upgradation
    - (4) training of banking staff
    - (5) professionalism in banking

36. Capital market is a market which deals in
    - (1) short-term funds (2) long-term funds
    - (3) gilt-edge securities (4) All of these
    - (5) None of these

37. Your bank's customer XYZ enjoys a CC limit of ₹ 100000. The CC account shows a credit balance of ₹ 10205. The relationship between your bank and XYZ Limited is
    - (1) debtor/creditor (2) creditor/debtor
    - (3) bailor/bailee (4) bailee/bailor
    - (5) None of these

38. RBI stipulates a healthy mix of CASA in the business figures of banks. What does it denote?
    - (1) Customer Analysis and Savings Pattern
    - (2) Cost Appreciation and Selling Analysis
    - (3) Current Account and Savings Account
    - (4) Credit and Savings Aggregate
    - (5) None of the above

39. Which of the following is/are functions of the RBI?

    I. Acts as the currency authority.
    II. Controls money supply and credit.
    III. Manages foreign exchange.
    IV. Serves as a banker to the government.

    Select the correct answer using the codes given below
    - (1) I and II
    - (2) II and III
    - (3) I, II and III
    - (4) All of the above
    - (5) None of the above

40. Quantitative instrument of RBI can be
    - (1) Bank Rate Policy (BRP)
    - (2) Cash Reserve Ratio (CRR)
    - (3) Statutory Liquidity Ratio (SLR)
    - (4) All of the above
    - (5) None of the above

41. Which of the following acts govern the RBI functions?
    - (1) RBI Act, 1934
    - (2) Banking Regulation Act, 1949
    - (3) Companies Act, 1956
    - (4) Foreign Exchange Regulation Act, 1973
    - (5) Foreign Exchange Management Act, 1999

42. Which of the following is/are the major concepts visible in today's banking industry in India?

    I. Risk-based management
    II. Growing competition
    III. IT initiatives

    Select the correct answer using the codes given below
    - (1) Only I (2) Only II
    - (3) Only III (4) I and III
    - (5) All of these

43. Which of the following conditions are required to be fulfilled by a Regional Rural Bank (RRB) to be eligible for opening of new branches?

(1) It should not have defaulted in maintenance of SLR and CRR during the last 2 years
(2) It should be making operational profits
(3) Its net worth should show improvement and its net NPA ratio should not exceed 8%
(4) Both '1' and '2'
(5) All of the above

44. The formal beginning of the merchant banking services in India began in 1967, when the Reserve Bank of India provided license to the

(1) State Bank of India
(2) Oriental Bank of Commerce
(3) Grindlays Bank
(4) Federal Bank
(5) None of the above

45. While discussing investments, there is mention of short-term government security. What is this type of investment known as?

(1) Debenture *(2)* Mutual fund
(3) Treasury bill *(4)* Share
(5) All of these

46. Which of the following is not a recommendation of the Narasimham Committee, 1991?

(1) Reduction of CRR and SLR
(2) Phasing out directed Credit Programme
(3) Reduction of capital adequacy ratio
(4) Establishment of ARF fund
(5) Autonomy to public sector bank

47. The commercial banking system in India consists of

(1) nationalised banks and private sector banks
(2) scheduled and non-scheduled banks
(3) regional rural banks, co-operative banks land development banks
(4) All of the above
(5) None of the above

48. Under the Negotiable Instrument Act, 1881, an instrument which is incomplete in some respects, is called a/an

(1) foreign instrument
(2) inland instrument
(3) inchoate instrument
(4) ambiguous instrument
(5) fictitious instrument

49. The primary credit society

(1) forms the base of the co-operative credit structure and on its working, depends to a large extent, the soundness of the whole co-operative credit structure
(2) is the best agency to inculcate the habit of thrift, self-help and mutual help among its members
(3) is engaged in securing for its members services of various kinds
(4) All of the above
(5) None of the above

50. Which among the following is a incorrect statement?

(1) The Reserve Bank of India has the special powers to control and regulate the commercial banking system
(2) A rise in the bank rate is a strong anti-deflationary monetary tool
(3) Minimum Reserve requirements are fixed to ensure the liquidity and solvency of individual commercial banks
(4) Reserve Ratio Requirement is a quicker method than bank rate and Open Market Operations (OMO) in general credit regulations
(5) Rationing of credit is a powerful qualitative monetary tool

Answers

1. (3)	**2.** (4)	**3.** (4)	**4.** (5)	**5.** (1)	**6.** (1)	**7.** (3)	**8.** (2)	**9.** (3)	**10.** (3)
11. (4)	**12.** (2)	**13.** (5)	**14.** (1)	**15.** (4)	**16.** (2)	**17.** (5)	**18.** (1)	**19.** (1)	**20.** (5)
21. (2)	**22.** (3)	**23.** (4)	**24.** ()	**25.** (2)	**26.** (3)	**27.** (2)	**28.** (1)	**29.** (4)	**30.** (4)
31. (5)	**32.** (3)	**33.** (3)	**34.** (4)	**35.** (1)	**36.** (2)	**37.** (1)	**38.** (3)	**39.** (4)	**40.** (4)
41. (1)	**42.** (5)	**43.** (5)	**44.** (3)	**45.** (3)	**46.** (3)	**47.** (2)	**48.** (3)	**49.** (5)	**50.** (2)

Banking Awareness

Practice Set 6

1. The bank rate means
   - (1) rate of interest charged by commercial banks from borrowers
   - (2) rate of interest at which commercial banks discounted bills of their borrowers
   - (3) rate of interest allowed by commercial banks on their deposits
   - (4) rate at which RBI purchases or rediscounts bills of exchange of commercial banks
   - (5) None of the above

2. Banks borrow money from the RBI on which of the following rates?
   - (1) Reverse repo rate (2) Repo rate
   - (3) SLR (4) CRR
   - (5) Savings rate

3. As per the guidelines of the RBI, banks are to provide appropriate banking facilities to habitations having population in excess of 2000, by which year?
   - (1) 2011 (2) 2012 (3) 2015 (4) 2016
   - (5) None of these

4. Which of the following schemes is not meant for investment purposes?
   - (1) National savings certificates
   - (2) Infrastructure bonds (3) Mutual funds
   - (4) Letter of credit (5) None of these

5. For which of the following reasons RBI has decided to undertake mid-quarter policy reviews?
   - I. To re-align its policies.
   - II. To take steps and ensure smooth flow of credit.
   - III. To provide guidance to the economy.

   Select the correct answer using the codes given below
   - (1) Only I (2) Only II
   - (3) Only III (4) All of these
   - (5) None of these

6. Which of the following organisation agencies are involved in drafting the Union Budget of India?
   - (1) The Planning Commission
   - (2) The Comptroller and Auditor General
   - (3) Administrative Ministries
   - (4) Both '1' and '2'
   - (5) All of the above

7. Which of the following is the most important component of the liabilities of commercial banks?
   - (1) Time deposits
   - (2) Demand deposits
   - (3) Inter-bank liabilities
   - (4) Other borrowings
   - (5) All of the above

8. Co-operation as a form of economic activity was formally recognised in India in the year 1904, when
   - (1) Mahatma Gandhi inaugurated the first Indian co-operative bank
   - (2) the first co-operative Societies Act was passed
   - (3) the first co-operative bank was established in Bombay
   - (4) All of the above
   - (5) None of the above

9. 'Sub-prime' refers to
   - (1) lending done by banks at rates below PLR
   - (2) funds raised by the banks at sub-libor rates
   - (3) group of banks which are not rated as prime banks as per banker's almanac
   - (4) lending done by financing institutions including banks to customers not meeting with normally required credit appraisal standards
   - (5) All of the above

10. With a view to enlarge resources available to RRBs for a variety of purposes, especially in the context of programme of financial inclusion, general credit card etc Reserve Bank advised that

(1) sponsor banks should provide them lines of credit at a reasonable rate of interest
(2) RRBs may borrow from/or place funds with other RRBs, including those sponsored by other banks, subject to counter party Credit Risk Policy and limits
(3) RRBs may enter into ready forward transactions in government securities with Subsidiary General Ledger (SGL), Constituent Subsidiary General Ledger (CSGL) account holders
(4) Both '2' and '3'
(5) All of the above

11. Which of the following measures have been taken to enlarge resources available to RRBs?

(1) Lines of credit at a reasonable rate of interest from sponsor banks
(2) Access to inter-RRB term money/borrowings
(3) Access to repo/CBLO markets
(4) All of the above
(5) None of the above

12. Which of the following statements about Regional Rural Banks (RRBs) are correct?

(1) Sponsor banks travellers cheques can be issued by RRBs
(2) RRBs can enter into arrangements with the sponsor banks for providing remittance facilities to its customers
(3) Where RRBs can afford the investment, they can install lockers also
(4) Both '1' and '2'
(5) All of the above

13. Reserve Bank has permitted RRBs for opening/maintaining non-residents (ordinary/external) accounts in rupees and for acceptance of FCNR (2) deposits subject to the condition that

(1) the bank should have a positive net worth and earned net profit during the preceding year
(2) the bank should not have defaulted in maintenance of CRR/SLR requirements on more than three occasions during the preceding 2 years
(3) net NPA level of the bank should not exceed 5% of the outstanding advances as on 31st March of the preceding year
(4) Both '2' and '3' *(5)* All of these

14. Out of total priority sector advances of RRBs, atleast .... should be advanced to weaker sections.

(1) 25% *(2)* 50% *(3)* 60% *(4)* 75%
(5) 90%

15. The Regulatory Authority for Regional Rural Banks is

(1) sponsor bank
(2) Central Government
(3) State Government
(5) RBI and NABARD
(5) All of the above

16. Expand the term FLCC.

(1) Financial Literacy and Credit Counselling
(2) Financial Literacy Communication Centre
(3) Financial Literacy Call Centre
(4) Fiscal Literacy and Credit Counselling
(5) None of the above

17. Which of the following terms is used in the field of banking ?

(1) MRI *(2)* Refraction
(3) Depository receipt *(4)* Neutralisation
(5) Atomic number

18. Banks in their daily business, face various kinds of risks. Which of the following is one such major risk?

(1) Customer risk *(2)* Reputation
(3) Goodwill risk *(4)* Protection risk
(5) Operational risk

19. Which of the following acts helps a bank in its day-to-day activities?

(1) Competition Act
(2) Negotiable Instruments Act
(3) Hindu Marriage Act
(4) Hindu Succession Act
(5) NRI Act

20. An institution which accepts deposits, makes business loans and offers related services is called
(1) Saving bank
(2) Commercial bank
(3) Investment bank
(4) Development bank
(5) Central bank

21. Which of the following is/are the functions of foreign banks?
I. Remitting money from one country to another country.
II. Discounting of foreign bills.
III. Buying and selling gold and silver.
IV. Helping import and export trade.

Select the correct answer using the codes given below
(1) I and II
(2) II and III
(3) III and IV
(4) I, II and III
(5) All of these

22. When the loan is granted for purchase of white goods, it is called
(1) consumption loan
(2) white goods loan
(3) consumer durable loan
(4) business loan
(5) proprietary loan

23. Which of the following is a non-banking financial company?
(1) SBI Caps
(2) ICICI Venture Fund
(3) Muthoot Finance
(4) Peerless Finance
(5) None of these

24. Which of the following terms is used in economics ?
(1) Keynesian
(2) Adsorption
(3) Affinity matrix
(4) Gene flow
(5) None of these

25. In the term STRIPS, the first letter 'S' denotes
(1) Single
(2) Small
(3) Special
(4) Savings
(5) Separate

26. The main resources of RRBs are
(1) share capital
(2) deposits from the public
(3) borrowing from sponsor banks
(4) refinance from NABARD
(5) All of the above

27. Which of the following banks has been included in the Second Schedule to the RBI Act, 1934 with effect from 21st August, 2004 and thus, is the latest entrant in Indian banking as a new generation private sector bank?
(1) ICICI Bank Limited
(2) HDFC Bank Limited
(3) Kotak Mahindra Bank Limited
(4) Yes Bank Limited
(5) None of the above

28. Any financial intermediary whose principal business is that of buying and selling of securities is called
(1) equipment leasing company
(2) hire purchase company
(3) loan company
(4) investment company
(5) None of the above

29. Which of the following are the main financial instruments of corporate sector?
I. Shares
II. Debentures
III. Public deposits
IV. Loan from institutions

Select the correct answer using the codes given below
(1) I and II
(2) II and III
(3) III and IV
(4) I, II and IV
(5) All of these

30. Lord Krishna Bank Limited is a
(1) new private sector bank
(2) old private sector bank
(3) public sector bank
(4) regional rural bank
(5) None of the above

31. Money deposited with the bank becomes a debt due
(1) from the banker
(2) from the customer
(3) to the customer
(4) Either '1' or '2'
(5) None of these

32. The first Governor of the Reserve Bank of India from 1st April, 1935 to 30th June, 1937 was
(1) Sir Osborne Smith
(2) Sir James Taylor
(3) CD Deshmukh
(4) Sir Benegal Rama Rao
(5) KG Ambegaonkar

33. The common feature of all the agricultural credit societies in the country is that

(1) the persons living in cities and town are their members
(2) the agriculturists are their members
(3) only small and marginal farmers are their members
(4) only the farmers having land holding of 8 acre and above are their members
(5) All of the above

34. Financial institutions

(1) promote savings
(2) mobilise savings
(3) allocate savings among different users
(4) All of the above
(5) None of the above

35. All of the following are examples of Quasi negotiable instruments, under the Negotiable Instrument Act, 1881, except

(1) dividend warrants (2) share warrants
(3) bearer debentures (4) promissory note
(5) None of these

36. Transfer of any instrument to another person by signing on its back or face or on a slip of paper attached to it is known as

(1) promissory note (2) bill of lading
(3) bill of exchange (4) endorsement
(5) None of these

37. Which of the following statements is correct about promissory note?

(1) It need not be in writing
(2) An implied promise is enough to constitute a valid promissory note
(3) The promise to pay must be definite and unconditional
(4) The name of the payee need not be mentioned
(5) The payment can be in kind

38. The concept of venture capital originated in

(1) UK (2) USA
(3) Japan (4) India
(5) Germany

39. All merchant banks must be worth atleast

(1) ₹ 1 crore (2) ₹ 2 crore
(3) ₹ 3 crore (4) ₹ 4 crore
(5) ₹ 5 crore

40. Headquarters of Reserve Bank of India is in

(1) New Delhi (2) Mumbai
(3) Kolkata (4) Chennai
(5) Hyderabad

41. SEBI was established in

(1) 1993 (2) 1992
(3) 1988 (4) 1990
(5) 1994

42. The banker is under an obligation to take utmost care in keeping secrecy of the details of the customer. However, the obligation of secrecy is not considered essential when

(1) a banker is required to give evidence in the court
(2) there is national emergency and disclosure is essential in the public interest
(3) there are clear proofs of treason to the state and when consent is given by the customer to provide information for the preparation of Balance Sheet
(4) All of the above
(5) None of the above

43. Central Bank credit

(1) creates (2) controls
(3) restricts (4) All of these
(5) None of these

44. The Reserve Bank of India (RBI) was nationalised on

(1) 1st January, 1949
(2) 1st July, 1955
(3) 19th July, 1969
(4) 15th April, 1980
(5) None of the above

45. RRBs were set-up on

(1) 1975 (2) 1985
(3) 1991 (4) 2001
(5) 1965

46. On the recommendations of which of the following committees Regional Rural Banks (RRB) were established ?

(1) Tarpore Committee
(2) Narasimham Committee
(3) Karmakar Committee
(4) Kelker Committee
(5) Jha Committee

47. Savings account with zero balance can be opened for
    - (1) persons of high net worth
    - (2) employees of IT companies
    - (3) weaker sections of society
    - (4) women customers
    - (5) None of the above

48. In 1991, the SLR was as high as
    - (1) 25%
    - (2) 30%
    - (3) 38.5%
    - (4) 39.5%
    - (5) 40%

49. Who amongst the following cannot open an account in any bank in India ?
    - (1) One who is not earning regularly
    - (2) A housewife
    - (3) A student of 10th standard
    - (4) A farmer who owns a small piece of land
    - (5) An individual who is well to do and his source of income in not known

50. Shares of companies notified by SEBI can be traded only when these are in .... form
    - (1) physical
    - (2) dematerialised
    - (3) Either '1' and '2'
    - (4) centralised
    - (5) None of the above

Answers

1. (4)	2. (2)	3. (1)	4. (4)	5. (1)	6. (3)	7. (1)	8. (2)	9. (4)	10. (5)
11. (4)	12. (5)	13. (5)	14. (1)	15. (4)	16. (4)	17. (3)	18. (5)	19. (2)	20. (2)
21. (5)	22. (3)	23. (3)	24. (1)	25. (5)	26. (5)	27. (4)	28. (4)	29. (5)	30. (2)
31. (2)	32. (1)	33. (2)	34. (4)	35. (4)	36. (4)	37. (3)	38. (2)	39. (1)	40. (2)
41. (3)	42. (4)	43. (2)	44. (1)	45. (1)	46. (2)	47. (3)	48. (3)	49. (3)	50. (2)

Banking Awareness

Practice Set 7

1. At which rate the RBI lends short-term money to the banks?
(1) PLR
(2) CRR
(3) Repo rate
(4) Reverse repo rate
(5) None of these

2. Banks make frequent changes in their product profile including introduction of new products etc. This is called
(1) product control
(2) product enhancement
(3) product marketing
(4) product enrichment
(5) None of the above

3. When a bill is drawn, accepted or endorsed for consideration, it is called a/an
(1) accommodation bill
(2) genuine trade bill
(3) escrow
(4) ambiguous instrument
(5) inchoate instrument

4. When RBI acts as a banker to the government, what does it do?
(1) RBI keeps bank accounts of the government
(2) RBI carries out government transactions
(3) RBI advises the government on all financial and monetary matters
(4) All of the above
(5) None of the above

5. As per prudential norms of RBI lending of scheduled commercial banks, on a fortnight average basis, should not exceed ...... of their capital fund.
(1) 25%
(2) 30%
(3) 35%
(4) 15%
(5) 20%

6. The past due debt collection policy of banks generally emphasises on .... at the time of recovery
(1) respect to customers
(2) appropriate letter authorising agents to collect recovery
(3) due notice to customers
(4) All of the above
(5) None of the above

7. A bank which acts as a banker of other banks is called
(1) saving bank
(2) commercial bank
(3) investment bank
(4) development bank
(5) central bank

8. In case a depositor is a sole proprietor and holds deposits in the name of the proprietory concern as well as in the individual capacity, the maximum insurance cover is available up to
(1) ₹ 100000
(2) ₹ 200000
(3) ₹ 500000
(4) All of these
(5) None of these

9. What percentage of India's population lives in rural areas?
(1) 50% to less than 55%
(2) 65% to less than 70%
(3) 70% to less than 75%
(4) 60% to less than 65%
(5) None of the above

10. Money lent for more than 1 day, but less than 15 days in the money market is known as
(1) notice money
(2) call money
(3) term money
(4) All of these
(5) None of these

11. The Unit Trust of India (UTI) came into existence in
(1) 1960 (2) 1962 (3) 1964 (4) 1966
(5) 1968

12. Banks give contracts to third parties in order to manage support services like
(1) help desk support
(2) credit card processing
(3) call support service
(4) All of the above
(5) None of the above

13. E-commerce is increasingly becoming a popular mode of doing business. What is this way of operating?
(1) Buying goods and services online from vendors
(2) Placing orders on the phones
(3) Getting 30 days credit period for payment
(4) Payment has to be made in advance before goods/services are delivered
(5) None of the above

14. In terms of Section 5*(1)(5)* of the Banking Regulation Act, 1949, a 'banking company' means any company which
(1) accepts deposits from the public
(2) undertakes lending of money
(3) transacts the business of banking in
(4) All of the above
(5) None of the above

15. When more than one bank is allowing credit facilities to one party in co-ordination with each other under a formal arrangement, the arrangement is generally known as
(1) participation (2) consortium
(3) syndication (4) multiple banking
(5) None of these

16. In case of FCNR*(2)* Scheme, the period for fixed deposits is
(1) as applicable to resident accounts
(2) for terms not less than 1 year and not more than 5 years
(3) for terms not less than 2 years and not more than 6 years
(4) at the discretion of the bank
(5) None of the above

17. In case, a depositor wishes to withdraw his fixed deposits prematurely, banks
(1) do not allow the same till maturity of the deposits
(2) charge a penalty for the same
(3) do not charge any penalty and allow the same
(4) All of the above
(5) None of the above

18. Consider the following statements
I. Securities that have an original maturity that is greater than 1 year are traded in capital markets.
II. The best known capital market securities are stocks and bonds.

Which of the statements given above is/are correct?
(1) Only I (2) Only II
(3) Both I and II (4) Neither I nor II
(5) Either I or II

19. The merchant banking activity in India is governed by
(1) SEBI (2) RBI (3) IRDA
(4) All of these (5) None of these

20. Which of the following is an example of NBFCs?
(1) Unit Trust of India
(2) Life Insurance Corporation
(3) General Insurance Corporation
(4) All of the above
(5) None of the above

21. At present, the RBI issues notes in the denominations of ₹
(1) 1, 2, 5, 10, 20, 50, 100 and 500
(2) 1, 2, 5, 10, 20, 50, 100, 500 and 1000
(3) 2, 5, 10, 20, 50, 100, 500 and 1000
(4) 2, 5, 10, 20, 50, 100, 500, 1000 and 10000
(5) 5, 10, 20, 50, 100 and 500

22. Which of the following are the scheduled banks?
(1) The Fuji Bank Limited
(2) IDBI Bank Limited
(3) Centurian Bank of Punjab Limited
(4) All of the above
(5) None of the above

23. Which of the following statements are correct in regard to foreign banks operating in India?

(1) Foreign banks would be allowed to open more than the existing WTO commitment of 12 branches in a year
(2) Foreign banks would be permitted to acquire a controlling stake in a phased manner, but only in those private sector banks which are identified by the Reserve Bank for restructuring
(3) The parent foreign bank of a wholly owned subsidiary would continue to hold 100% equity in the Indian subsidiary for a minimum prescribed period of operation
(4) Both '1' and '2' *(5)* All of these

24. Universal Bank is one which

(1) is present universally *i.e.,* in all the countries of the world
(2) undertakes the work of note-issuing authority, monetary and regulatory authority, banker of the government and equipment leasing
(3) undertakes the functions of a development financial institution as well as a commercial bank
(4) when bank undertake foreign exchange business
(5) All of the above

25. Which of the following is not a prerequisite for a promissory note?

(1) Drawn on a specified banker
(2) It should be unconditional
(3) It should be in writing
(4) It should be made and signed by the debtor
(5) It should be payable in the currency of the country

26. Which of the following is an example of financial assets?

(1) National saving certificates
(2) Infrastructure bonds
(3) Indira vikas
(4) Krishi vikas
(5) All of the above

27. A central co-operative bank is generally headquartered at

(1) an important town of the district
(2) state capital
(3) same place which is the headquarter of the district
(4) the place where from the Central Government is run
(5) All of the above

28. Which of the following is a term not linked to banking and financial transactions?

(1) Provision coverage ratio
(2) Securitisation
(3) Credit default swap
(4) Consolidation
(5) None of the above

29. At present, the formula for subscription to RRBs capital has been fixed at

(1) Central Government 50%, State Government 35% and Sponsor Bank 15%
(2) Central Government 60%, State Government 20% and Sponsor Bank 20%
(3) Central Government 30%, State Government 30% and Sponsor Bank 40%
(4) Central Government 35%, State Government 35% and Sponsor Bank 30%
(5) Central Government 50%, State Government 25% and Sponsor Bank 25%

30. What are the co-operative banks at the village level known as

(1) Central co-operative banks
(2) Primary agricultural co-operative societies
(3) Village co-operative banks
(4) State co-operative banks
(5) None of the above

31. What was the objective of starting co-operative banking in India?

(1) To act as competitors to commercial banks
(2) To be solely for the agriculture sector
(3) To start self help groups
(4) To replace moneylenders and indigenous bankers
(5) None of the above

32. Many co-operative banks has their licenses cancelled by RBI. Why?

(1) Because of financial indiscipline
(2) Because of staff and management rift
(3) As a result of labour unrest
(4) Owing to voluntary surrender by the co-operative
(5) All of the above

33. Which of the following is true about co-operative banks?

(1) They are established under the Co-operative Societies Act
(2) They have profit as their main motive
(3) All are scheduled banks
(4) All of the above
(5) None of the above

34. Resources of land development banks operating in the country are raised by

(1) share capital from members which is linked ro their borrowings from the bank
(2) reserves created out of profits
(3) borrowings comprising of interim accommodation, deposits and debentures
(4) Only 3 (5) All of these

35. Small savings Scheme like National Savings Certificates, Public Provident Fund, Monthly Income Schemes are popular among the salaried people. Which financial institutions manage these schemes?

(1) Public sector banks (2) Commercial banks
(3) Post offices (4) Co-operative banks
(5) Private sector bank

36. Which of the following statements about UCBs undertaking insurance business is/are correct?

(1) No UCB should undertake insurance agency business without obtaining its prior permission
(2) The Reserve Bank has allowed all primary (Urban) co-operative banks to undertake insurance business on a referral basis, without any risk participation through their network of branches
(3) The banks need not obtain prior approval of the Reserve Bank to undertake referral business
(4) All of the above
(5) None of the above

37. National Federation of State Co-operative Banks

(1) provides a common forum to the member banks
(2) promotes and protects the interests of the member banks
(3) co-ordinate and liaison with Government of India and RBI
(4) provide research and consultancy inputs to the member banks
(5) All of the above

38. According to Sarraya Committee, average membership of the societies is

(1) 25 (2) 28 (3) 30 (4) 32
(5) 35

39. The RBI has prescribed that all SCBs should maintain their SLRs in

(1) dated securities notified by RBI
(2) T-bills of Government of India
(3) state development loans
(4) All of the above
(5) None of the above

40. RRBs are permitted to undertake corporate agency business, without risk participation, for distribution of all types of insurance products including health and animal insurance subject to the condition that

(1) the bank should comply with the Insurance Regulatory and Development. Authority (IRDA) regulations for acting as 'composite corporate agent'
(2) the bank should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the bank
(3) the risks, if any, involved in insurance agency should, not get transferred to the business of the bank
(4) Both '1' and '3'
(5) All of the above

41. For filing and resolving customer complaints, the Banking Ombudsman

(1) charges a fee of ₹ 500
(2) does not charge any fee
(3) charges a fee of ₹ 1500
(4) charges a fee of ₹ 1000
(5) None of the above

42. Under which category, will you classify Regional Rural Banks (RRBs)?
(1) Scheduled commercial banks
(2) Co-operative banks
(3) Private sector banks
(4) Development banks
(5) None of the above

43. The Reserve Bank of India was set-up on the recommendations of the
(1) Narasimham Committee
(2) Hilton-Young Commission
(3) Mahalanobis Committee
(4) Fazal Ali Commission
(5) None of the above

44. Regional Rural Banks (RRBs) are managed by
(1) Reserve Bank of India
(2) a Board of Directors
(3) the sponsor bank
(4) the State Government
(5) All of the above

45. In July 1969, how many commercial banks were nationalised?
(1) 13 *(2)* 14 *(3)* 15 *(4)* 16
(5) 20

46. IRDA with its headquarters at .... is the Regulatory Authority for all insurance companies in India including the Life Insurance Corporation of India.
(1) Hyderabad *(2)* Bengaluru
(3) Mumbai *(4)* Delhi
(5) Chandigarh

47. Regional Rural Banks (RRBs) are empowered to transact the business of banking as defined under
(1) Banking Regulation Act, 1949
(2) Negotiable Instruments Act, 1881
(3) Regional Rural Banks Act, 1976
(4) the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
(5) None of the above

48. Which of the following is incorrect about the recommendations of Narasimham Committee Report, 1998?
(1) Reduced CRR and SLR
(2) Deregulation of Interest Rate
(3) Establishment of the ARF Tribunal
(4) Fixing Prudential Norms
(5) Capital Adequacy Norms

49. RRBs are refinanced at
(1) 2% below the bank rate
(2) 1% below the bank rate
(3) 2% below the repo rate
(4) 1% below the repo rate
(5) repo rate

50. Where is the headquarter of SIDBI?
(1) Varanasi
(2) Lucknow
(3) New Delhi
(4) Kolkata
(5) Mumbai

Answers

1. (3)	**2.** (2)	**3.** (2)	**4.** (4)	**5.** (1)	**6.** (4)	**7.** (5)	**8.** (1)	**9.** (2)	**10.** (1)
11. (3)	**12.** (4)	**13.** (1)	**14.** (3)	**15.** (2)	**16.** (2)	**17.** (2)	**18.** (3)	**19.** (1)	**20.** (4)
21. (3)	**22.** (2)	**23.** (5)	**24.** (3)	**25.** (1)	**26.** (5)	**27.** (3)	**28.** (4)	**29.** (2)	**30.** (2)
31. (4)	**32.** (1)	**33.** (1)	**34.** (5)	**35.** (3)	**36.** (5)	**37.** (5)	**38.** (4)	**39.** (4)	**40.** (5)
41. (2)	**42.** (1)	**43.** (2)	**44.** (2)	**45.** (2)	**46.** (1)	**47.** (1)	**48.** (3)	**49.** (1)	**50.** (2)

Banking Awareness

Practice Set 8

1. Which of the following is/are key policy rates used by RBI to influence interest rates?

I. Bank rate and repo rate
II. Reverse repo rate
III. CRR and SLR

Select the correct answer using the codes given below

(1) Only I (2) Only II
(3) Only III (4) All of these
(5) None of these

2. Many times, we read in newspapers that the RBI has revised certain rates/ratios under LAF What is the full form of LAF?

(1) Legal Adjustment Facility
(2) Liquidity Adjustment Facility
(3) Long-term Achievement Facility
(4) Legal Adjustment Formality
(5) None of the above

3. Which of the following rates signals the RBI's long-term outlook on interest rates?

(1) Repo rate (2) Reverse repo rate
(3) Bank rate (4) SLR
(5) CRR

4. The maximum period for which a fixed deposit can be accepted by a commercial bank is

(1) 10 years (2) 15 years
(3) No limit (4) 8 years
(5) None of these

5. In the term repo, the term of the loan is greater than

(1) 30 days (2) 20 days (3) 60 days
(4) 90 days (5) None of these

6. Coins which were minted in with the 'Hand Picture' are available since

(1) independence (2) 1965
(3) 2000 (4) 2005
(5) 2010

7. RBI stipulates a healthy mix of CASA in the business figures of banks. What does it denote?

(1) Customer Analysis and Savings Pattern
(2) Cost Appreciation and Selling Analyses
(3) Current Account and Savings Account
(4) Credit and Savings Aggregate
(5) None of the above

8. Which of the following is not a party of Bill of Exchange?

(1) The drawer (2) The drawee
(3) The payee (4) The endorser
(5) None of these

9. The weakest link in the co-operative credit system is

(1) non-availability of published data on their functioning
(2) the non-viability of a large number of primary agricultural credit societies
(3) presence of multiple structure and diverse nature of various types of primary societies
(4) Both '1' and '2'
(5) All of the above

10. Which of the following is/are the rights of customer towards his banker?

(1) To receive a statement of his account from a banker
(2) To sue the bank for any loss and damages
(3) To sue the banker for not maintaining the secrecy of his account
(4) All of these (5) None of these

11. Proposals for setting up of new banks are under active consideration. Which organisation gives the permission?

(1) RBI
(2) Indian Banks Association
(3) Finance Ministry
(4) Cabinet Committee on Economic Affairs
(5) None of the above

12. Basel norms are important international regulatory stipulations. It is meant for which sector?

(1) Insurance
(2) Banking
(3) Micro finance
(4) Pension funds
(5) None of the above

13. Which of the following does not come under the category of development banks?

(1) Industrial Development Bank of India
(2) Small Industries Development Bank of India
(3) Industrial Investment Bank of India
(4) State Finance Corporation
(5) Export-Import Bank

14. With a view to improving the performance of RRBs and giving more powers and flexibility to their boards in decision-making, the Reserve Bank had constituted task force on empowering the RRB Boards for Operational Efficiency. The task force was headed by

(1) KG Karmakar
(2) SS Tarpore
(3) Rangarajan
(4) M Narasimham
(5) None of the above

15. On the current account, balances maintained by the Regional Rural Banks (RRBs) with them, the commercial banks may

(1) pay interest up to 9%
(2) waive incidental charges
(3) pay interest as applicable to savings accounts
(4) pay interest at such rates as may be mutually agreed to
(5) All of the above

16. Mutual funds fall within supervisory purview of

(1) SBI
(2) RBI
(3) SEBI
(4) IRDA
(5) None of the above

17. A Bill of Exchange in which a bank orders its branch or another bank, as the case may be, to pay a specified amount to a specified person or to the order of the specified person is called

(1) cheque
(2) bankdraft
(3) promissory note
(4) insurance
(5) None of the above

18. The rate of interest payable on a bank deposit is determined by

(1) Indian Bank's Association
(2) the bank concerned
(3) RBI
(4) Finance Ministry
(5) None of the above

19. Paid-up share capital of Regional Rural Bank (RRB) is contributed by

(1) Central Government
(2) State Government
(3) Central Government, State Government and the Sponsor Commercial Bank in the ratio of 50 :15 : 35 respectively
(4) NABARD, the concerned State Government and the Sponsor Commercial Bank in the ratio of 60 : 20 : 20 respectively
(5) All of the above

20. Which of the following institutions is not directly associated with the financial sector in India?

(1) Bombay Stock Exchange
(2) BIFR
(3) SEBI
(4) Planning Commission
(5) None of the above

21. As we all know, Cash Reserve Ratio (CRR) is the percentage of the deposit keep in reserve with them. This ratio is also known as

(1) Repo rate
(2) Reverse repo rate
(3) SLR
(4) Liquidity ratio
(5) None of the above

22. At which of the following rates does the Central Bank lend to banks against government securities? **(Corporation Bank 2011)**
(1) Repo Rate
(2) Reverse Repo Rate
(3) Bank Rate
(4) SLR
(5) CRR

23. For the purpose of Income Tax Act, 1961, the Regional rural banks (RRBs) are treated as
(1) scheduled commercial banks
(2) non-scheduled banks
(3) nationalised banks
(4) co-operative banks
(5) None of the above

24. With a view to increase their resource base, RRBs have been permitted to
(1) issue of credit/debit cards and setting-up of ATMs
(2) open currency chests
(3) handle pension and other government business as sub-agents of those banks which are authorised to conduct government business
(4) Both '1' and '2'
(5) All of the above

25. The Interest rate at which the RBI lends to commercial banks in the short-term to maintain liquidity is known as
(1) interest rate
(2) repo rate
(3) reverse repo rate
(4) bank rate
(5) All of the above

26. Reverse repo means
(1) injecting liquidity by the Central Bank of a country through purchase of government securities
(2) absorption of liquidity from the market by sale of government securities
(3) balancing liquidity with a view to enhance economic growth rate
(4) improving the position of availability of the securities in the market
(5) All of the above

27. The total authorised capital of RRBs was originally fixed at ₹ 1 crore which has since been raised to
(1) ₹ 2 crore
(2) ₹ 3 crore
(3) ₹ 5 crore
(4) ₹ 7 crore
(5) ₹ 10 crore

28. An agreement, which in fact is a contract, between the RBI and banks for the sale and repurchase of government securities and short-term treasury bills at a future date and for which the RBI indicates 'the interest rate', is generally known as
(1) repo rate
(2) bank rate
(3) reverse repo rate
(4) prime lending rate
(5) None of these

29. What is Forex?
(1) It is buying of foreign currency
(2) It is selling of foreign currency
(3) It is buying of one currency and selling of another currency
(4) It is simultaneous buying of one currency and selling of another currency
(5) None of the above

30. Which of the following is not considered as negotiable instrument under the Negotiable Instruments Act, 1881?
(1) Bill of Exchange
(2) Promissory Note
(3) Share Certificate
(4) Cheque Payable to Bearer
(5) Cheque with 'Not Negotiable' crossing

31. The Reserve Bank of India began production of notes in 1938, issuing ₹ 25101000 notes. ₹ 1000 note was re-introduced again in
(1) 1987
(2) 2000
(3) 2003
(4) 2006
(5) 2010

32. When an endorser waives presentment and notice of dishonour, he increases his liability. His endorsement is
(1) facultative endorsement
(2) qualified endorsement
(3) alternative endorsement
(4) restrictive endorsement
(5) None of the above

33. The Bombay Stock Exchange was made functional as early as

(1) 1870
(2) 1901
(3) 1935
(4) 1951
(5) 1949

34. Deposits with Regional Rural Banks (RRBs) are insured by

(1) Life Insurance Corporation of India
(2) General Insurance Corporation
(3) Deposit Insurance and Credit Guarantee Corporation
(4) None of the above
(5) All of the above

35. The sponsor banks are empowered

(1) to monitor the progress of RRBs
(2) to conduct inspection and internal audit
(3) to suggest corrective measures
(4) All of the above
(5) None of the above

36. Which of the following cannot open a bank account?

(1) Person of unsound mind
(2) A minor
(3) An illiterate person
(4) A blind individual
(5) None of the above

37. RBI generally reviews the Monetary Policy after every

(1) 3 months
(2) 6 months
(3) 9 months
(4) 10 months
(5) None of the above

38. Which nationalised bank was the first to sponsor a Regional Rural Bank (RRB) in India?

(1) Syndicate Bank
(2) Bank of India
(3) Union Bank of India
(4) Central Bank of India
(5) None of the above

39. Regional Rural Banks fall within supervisory purview of

(1) SBI
(2) RBI
(3) SEBI
(4) IRDA
(5) None of these

40. RRBs are owned by

(1) Central Government
(2) State Government
(3) Sponsor Bank
(4) All of the above
(5) None of the above

41. Which of the following rates is decided by the market conditions and not by RBI?

(1) Bank rate
(2) SLR
(3) CRR
(4) Inflation rate
(5) None of these

42. The number of directors on the Boards of RRBs has been raised to

(1) 14
(2) 15
(3) 16
(4) 17
(5) 18

43. The issued/paid-up capital of a Regional Rural Bank (RRB) should be

(1) ₹ 60 lakh
(2) minimum ₹ 25 lakh and maximum ₹ 100 lakh
(3) ₹ 80 lakh
(4) ₹ 90 lakh
(5) None of the above

44. Which of the following formulates, implements and monitors the Monetary policy?

(1) Ministry of Finance
(2) RBI
(3) SBI
(4) ICICI Bank
(5) None of the above

45. Indian financial system comprises of

(1) scheduled commercial banks
(2) non-banking financial institutions
(3) urban co-operative banks
(4) All of the above
(5) None of the above

46. The market for bankers acceptance which or out of trade transactions, both domestic and foreign, is called

(1) money market
(2) capital market
(3) bankers acceptance market
(4) repo market
(5) government security market

47. The decimal system of note and coin issue was started in India in

(1) 1935 (2) 1947
(3) 1951 (4) 1957
(5) 1965

48. An average citizen cannot open a Savings account in which of the following?

(1) Commercial bank
(2) Post office
(3) Co-operative bank
(4) RBI
(5) None of these

49. Banking and financial services all over the world are regulated usually by the Monetary Authority of the land. Who controls this function in India?

(1) Ministry of Finance (2) SEBI
(3) RBI
(4) IRDA
(5) FEDAI

50. The term national income represents

(1) Gross national product at market prices minus depreciation
(2) Gross national product at markets prices minus depreciation plus net factor income from abroad
(3) Gross national product at market prices minus depreciation and indirect taxes plus subsides
(4) Gross national product at market prices minus net factor income from abroad
(5) None of the above

Answers

1. (3)	2. (2)	3. (3)	4. (1)	5. (1)	6. (4)	7. (3)	8. (4)	9. (2)	10. (4)
11. (1)	12. (1)	13. (2)	14. (5)	15. (1)	16. (4)	17. (3)	18. (2)	19. (2)	20. (2)
21. (4)	22. (5)	23. (3)	24. (4)	25. (5)	26. (2)	27. (2)	28. (3)	29. (1)	30. (4)
31. (3)	32. (2)	33. (1)	34. (1)	35. (3)	36. (4)	37. (1)	38. (1)	39. (1)	40. (2)
41. (4)	42. (4)	43. (2)	44. (5)	45. (2)	46. (4)	47. (3)	48. (4)	49. (4)	50. (3)

Banking Awareness

Practice Set 9

1. Which of the following purposes RBI has constituted a working group with Shri Deepak Mohanty as Chairman ?

- (1) Deregulation of primary markets
- (2) Deregulation of secondary markets
- (3) Deregulation of savings bank rates
- (4) Introduction of base rate
- (5) None of the above

2. For loans and advances granted by commercial banks to Small Road and Water Transport Operations Scheme (SRWTED), NABARD provides refinance under automatic refinance facility, subject to which of the following conditions?

- (1) Repayment of loan should not exceed 5 years with moratorium of 6 months
- (2) Refinance amount is restricted to ₹ 15 lakh per borrower
- (3) The borrower should be from rural area and he should utilise the vehicle mainly for transportation of rural farm and non-farm products and inputs and passengers to/from marketing centres
- (4) All of these
- (5) None of these

3. A customer has a right to ask the bank to return him a paid instruments before the expiry of period of such instruments under the provisions of

- (1) Section 131 of the Negotiable Instruments Act, 1881
- (2) Section 34 of Reserve Bank of India Act, 1934
- (3) Section 45 Z of the Banking Regulation Act, 1949
- (4) All of these
- (5) None of these

4. Under its Foreign Currency Pre-shipment Credit (FCPC), Exim Bank gives short-term foreign currency finance to eligible exports for procurement of inputs and to commercial banks for on-lending to export customers; the terms of finance is/are

- (1) interest rate on finance is maximum 2% over LIBOR (London Inter-Bank Offered Rate)
- (2) maximum period of finance is 180 days from the date of disbursement
- (3) for commercial banks, loans availed from Exim Bank are exempted from the requirement of Cash Reserve Ratio (CRR), Statutory Liquidity Requirement (SLR) and Incremental Credit-Deposit Ratio requirements
- (4) All of the above
- (5) None of the above

5. When does an automatic right of set-off arise?

- (1) On death, insanity or insolvency of the customer
- (2) On receipt of garnishee order
- (3) On receipt of assignment of credit balance
- (4) All of the above
- (5) None of the above

6. Tier-I capital would mean

- (1) paid up capital
- (2) statutory reserves and other disclosed free reserves
- (3) capital reserves representing surplus arising out of sale proceeds of assets
- (4) All of the above
- (5) None of the above

7. 'Sub-Prime Lending' which was the root cause for global melt down in banks, during 2008 means

- (1) bank finance for non-productive activities
- (2) bank finance not properly disclosed in its Balance Sheet
- (3) bank finance in violation to the directives of the Central Bank
- (4) bank finance to fictitious entities
- (5) bank finance who do not qualify for the best market interest rates

8. Factoring means
   (1) an easy way of raising capital from a factoring company by small business
   (2) selling of account receivables on a contract basis for cash payment to a factor before it is due
   (3) an arrangement for raising short-term money against prepaid expenses
   (4) a method of discounting of long-term bills
   (5) None of the above

9. As per the provision of Section 29 of the Banking Regulation Act, 1949 every banking company is required to prepare its final accounts; *viz.*, profit and loss account and balance sheet in the firms prescribed in
   (1) the Second Schedule to the RBI Act, 1934
   (2) the Third Schedule to the Banking Regulation Act, 1949.
   (3) Table A to the Companies Act, 1956
   (4) All of these (5) None of these

10. Which of the following is not a programme/agency of the Union Ministry of Finance?
   (1) Investor Education and Protection Governance (IEPG)
   (2) National Foundation for Corporate Governance (NFCG)
   (3) Serious Frauds Investigation Office (SFIO)
   (4) Investment Commission
   (5) Central Rural Sanitation Programme

11. Which is the card that looks like any other plastic card or an ATM card with Integrated Circuit (IC chip)?
   (1) Member card
   (2) Charge card
   (3) Credit card
   (4) Smart card
   (5) None of the above

12. Tier-II capital consists of
   (1) undisclosed reserves and cumulative perpetual preference shares
   (2) general provisions, loss reserves and revaluation reserves
   (3) subordinated debt, hybrid debt capital instruments
   (4) All of the above
   (5) None of the above

13. As per guidelines of Reserve Bank of India, a new private sector bank
   (1) shall be subject to prudential norms in regard to income recognition, asset classification and provisioning, capital adequacy etc
   (2) shall have to observe priority sector lending targets as applicable to other domestic banks
   (3) will be required to open rural and semi-urban branches
   (4) All of these (5) None of these

14. For which one of the following loan products 'teaser loans' are offered by banks ?
   (1) Educational loans (2) Commercial loans
   (3) Loans against security of gold
   (4) Retail trade loans (5) Home loans

15. Initial repayment holiday given to a borrower for repayment of loan is called as
   (1) subvention (2) moratorium
   (3) re-schedulement (4) amortisation
   (5) EMI

16. The Basic Committee has defined capital in two tiers (Tier-I and Tier-II). Tier-I capital is known as
   (1) net capital (2) gross capital
   (3) working capital (4) core capital
   (5) None of these

17. As per the existing policy, the Cash Reserve Ratio (CRR) of scheduled banks is fixed at a certain percentage of their NDTL. What is full form of NDTL ?
   (1) New Demand and Tenure Liabilities
   (2) Net Demand and Time Liabilities
   (3) National Deposits and Total Liquidity
   (4) Net Duration and Total Liquidity
   (5) New Deposits and Term Liquidity

18. A consortium of commercial banks has joined hands to float a new company which will collect data related to frauds and security risks. Which of the following is the name of the company ?
   (1) Loss Data Consortium
   (2) Customer Service Corporation
   (3) Bank Net India Limited
   (4) Nu Tech Corporate Services Limited
   (5) None of the above

19. Zero balance account is generally allowed to be opened for

(1) salaried class (2) businessmen
(3) foreign customers (4) children
(5) senior citizens

20. Which one of the following may be the consequence of buying forex in the market by the RBI?

(1) It leads to inflation
(2) It leads to control over inflation
(3) It does not affect inflation
(4) It results into deflation
(5) None of the above

21. As per the new guidelines issued by SEBI, companies are required to list shares within how many days of the closure of the Initial Public Offers (IPOs)?

(1) 60 days (2) 12 days
(3) 30 days (4) 45 days
(5) None of these

22. Almost all banks in our country have introduced .... facility for granting crop loans to farmers.

(1) term loans (2) kisan credit cards
(3) bank guarantee (4) foreign exchange
(5) reverse mortgage

23. In Corporate Hedging, which one of the following types of risks can be covered ?

(1) Liquidity risk
(2) Currency risk
(3) Credit risk
(4) Transaction risk
(5) None of the above

24. On which one of the following issues can SEBI penalise any company in India ?

I. Violation of Banking Regulation Act.
II. Violation of foreign portfolio investment guidelines.
III. For violation of Negotiable Instrument Act.

Select the correct answer using the codes given below

(1) Only I (2) I, II and III
(3) I and II (4) II and III
(5) All of these

25. What are teaser loan rates charged by banks ?

(1) Fixed rate of interest charged by banks
(2) Floating rate of interest charged by banks
(3) Rate of interest in the initial period is less and goes up subsequently
(4) Rate of interest in the initial period is more and it goes down subsequently
(5) None of the above

26. In which one of the following states, India's first Islamic Bank is proposed to be set-up?

(1) Kerala (2) Tamil Nadu
(3) Odisha (4) Bihar
(5) None of these

27. Assume that Reserve Bank of India reduces the bank rate by 1%, what will be its impact?

(1) Less liquidity in the market
(2) More liquidity in the market
(3) No change in the liquidity in the market
(4) Mobilisation of more deposits by commercial banks
(5) None of the above

28. Which one is true in respect of bank marketing?

(1) Bank marketing deals with providing services to satisfy customer's financial needs and wants
(2) Bank marketing has to discover/ascertain/anticipate the financial needs of the corporates
(3) Bank marketing may be required to satisfy the corporates and institutions, other related needs and wants
(4) Bank marketing means competitive element, efficiency and effectiveness in the process
(5) None of the above

29. 'National Financial Switch' has been set-up to facilitate connectivity between the bank's switches and their ATMs and inter-bank payment gateway for authentication and routing the payment details of various e-commerce transactions. Which organisation has set-up this switch?

(1) IBRD (2) IDRBT
(3) SBI (4) SIDBI
(5) None of these

30. In the world of commodity exchanges the concept of "A standard contract to buy or sell a specified commodity at a certain date in future and at a market driven price" is known as

(1) future contract (2) forward contract
(3) market contract (4) standard contract
(5) None of these

31. Who amongst the following has asked banks to adopt 'Six Steps' approach to prevent diversion of funds by the companies?

(1) Company Registrar (2) SEBI
(3) RBI (4) AMFI
(5) All of these

32. Preshipment packing credit advances are generally given by banks to

(1) farmers (2) retail traders
(3) professionals (4) exporters
(5) transport operators

33. What is a Corporate Hedging?

(1) It is a mechanism to protect firm's exposure to equity risk
(2) It is a mechanism to protect firm's exposure to market risk
(3) It is a mechanism to protect firm's exposure to forex risk
(4) It is a mechanism to protect firm's exposure in international trade
(5) None of the above

34. In cases where the loan is sanctioned by the bank against the borrower submitting the fake/forged documents and thus, playing fraud on the bank, such a loan is to be treated in the bank's books as a .... asset, even when there is recovery in the account as per the repayment schedule approved by the bank at the time of sanctioning the loan.

(1) standard (2) sub-standard
(3) doubtful (4) loss
(5) None of these

35. A bank branch receives a counterfeit note of ₹ 100 from the customer, which customer wants it back. Which of the following action should be taken by the bank?

(1) Will return to customer
(2) Will impound and not return
(3) Will ask for exchange of note
(4) Will replace with genuine note
(5) Will check all the notes in possession with the customer which are not being deposited also

36. A loan granted for short-term crops will be treated as NPA, if the instalment of principal or interest thereon or both remain overdue for ...... crop season(s).

(1) one (2) two
(3) three (4) four
(5) None of these

37. What are major functions undertaken by merchant bankers ?

(1) Issue management
(2) Capital structuring/ restructuring
(3) Market maker in capital market
(4) All of the above
(5) None of the above

38. In our country, now a cheque remains valid for payment for .... from the date of issue.

(1) 3 months
(2) 6 months
(3) 9 months
(4) 12 months
(5) 18 months

39. The Forward Markets Commission is responsible for regulation of which type of trading in India?

(1) Commodities future trading
(2) Currency future trading
(3) Equity future trading
(4) Derivative future trading
(5) All of the above

40. The Industrial Finance Corporation of India provides loans to

(1) government companies only which are in core sector (*i.e.*, power generation, steel, coal and cement etc)
(2) newly established industries in backward districts
(3) industries in private sector
(4) joint stock companies and cooperative societies engaged in the manufacturing and processing of goods
(5) None of the above

41. The advantages of Local Area Network (LAN) to banks are
- *(1)* sharing of expensive resources by several users
- *(2)* availability of stored information to all users
- *(3)* all the terminals are intelligent terminals, the processing load is shared by computers in LAN
- *(4)* All of these
- *(5)* None of these

42. Basel-II norms are associated with which of the following aspects of the banking industry?
- *(1)* Risk management
- *(2)* Manpower planning
- *(3)* Retirement benefits for the employees
- *(4)* Corporate governance
- *(5)* None of these

43. A decreasing current ratio indicates
- *(1)* a stable liquidity
- *(2)* an increasing liquidity
- *(3)* a strained liquidity
- *(4)* satisfactory current solvency
- *(5)* None of the above

44. Which of the following is/are a/an indicator of the financial health of a country?

I. GDP II. PPP III. FDI in a year

Select the correct answer using the codes given below
- *(1)* Only I
- *(2)* Only II
- *(3)* Only III
- *(4)* All of these
- *(5)* None of these

45. Which of the following is not considered one among the loans under Retail banking?
- *(1)* Car loan
- *(2)* Housing loan
- *(3)* Personal loan
- *(4)* Education loan
- *(5)* Infrastructure loan

46. A lease
- *(1)* is a rental agreement between owner of a flat/house and the tenant, whereby the tenant pays specified amount on specified dates to the owner
- *(2)* is a legal contract between the owner of an asset and its user, containing many conditions including payment of a specified amount by the user to the owner for use of the asset
- *(3)* is mainly used for machinery
- *(4)* is one of the ways resorted to by the companies
- *(5)* None of the above

47. Very often we see in the advertisements published by financing institutes/agencies stating that their products are given high or average ratings. These rating agencies classify bonds/investments in how many categories?

I. Low risk II. Average risk

III. High risk

Select the correct answer using the codes given below
- *(1)* Only I
- *(2)* Only II
- *(3)* Only III
- *(4)* All of these
- *(5)* None of these

48. In the case of creation of registered mortgages, the mortgage deed should be presented for registration with Registrar of Assurances within.........from the date of execution of the deed.
- *(1)* 1 month
- *(2)* 2 months
- *(3)* 3 months
- *(4)* 4 months

49. Credit cards are known as
- *(1)* hard money
- *(2)* easy money
- *(3)* soft money
- *(4)* plastic money
- *(5)* real money

50. Primary Dealers (PDs) deal in .... in both primary and secondary markets.
- *(1)* equities
- *(2)* debentures
- *(3)* corporate bonds
- *(4)* government securities
- *(5)* None of the above

Answers

1. (5)	**2.** (4)	**3.** (3)	**4.** (4)	**5.** (4)	**6.** (4)	**7.** (1)	**8.** (2)	**9.** (2)	**10.** (5)
11. (4)	**12.** (4)	**13.** (4)	**14.** (5)	**15.** (2)	**16.** (4)	**17.** (2)	**18.** (1)	**19.** (1)	**20.** (4)
21. (2)	**22.** (2)	**23.** (1)	**24.** (5)	**25.** (3)	**26.** (1)	**27.** (2)	**28.** (1)	**29.** (2)	**30.** (1)
31. (3)	**32.** (4)	**33.** (2)	**34.** (4)	**35.** (2)	**36.** (2)	**37.** (4)	**38.** (1)	**39.** (1)	**40.** (4)
41. (4)	**42.** (1)	**43.** (3)	**44.** (4)	**45.** (5)	**46.** (2)	**47.** (4)	**48.** (4)	**49.** (4)	**50.** (4)

Banking Awareness

Practice Set 10

1. Which of the following is introduced by banks to increase financial inclusion?
   - (1) Stimulus package
   - (2) Internet banking
   - (3) Business correspondent
   - (4) Corporate banking
   - (5) None of the above

2. Which of the following is a type of banking application which authorises a bank to block a specific sum of money in an individual's bank account to be invested in an Initial Public Offer (IPO)?
   - (1) RTGS
   - (2) ASBA
   - (3) Prefunded cheques
   - (4) SCSBs
   - (5) None of the above

3. The RBI has asked banks to spell out their policy, procedures and size of the business on which of the following aspects of banking?
   - (1) On-shore banking
   - (2) Off-shore banking
   - (3) Investments in secondary market
   - (4) Wealth management
   - (5) None of the above

4. The main objective(s) of National Housing Bank is/are
   - (1) to promote and develop specialised housing finance institutions for mobilisation of resources and extending finance for housing activities
   - (2) to extend refinance facilities to housing finance institutions and to scheduled banks
   - (3) to provide guarantee and underwriting facilities to housing finance institutions
   - (4) All of the above
   - (5) None of the above

5. Under what circumstances, can the bank close a Partnership account?
   - (1) Death of partner
   - (2) Retirement of a partner
   - (3) Insolvency of a partner
   - (4) All of the above
   - (5) None of the above

6. Partners are mutual agents. It applies to sleeping or secret partners also. The rights of other partners
   - (1) can be restricted and entrusted to one partner
   - (2) cannot be restricted and not be entrusted to one partner
   - (3) can be enjoyed jointly
   - (4) can be enjoyed severally
   - (5) None of the above

7. Which of the following constitute the code of conduct for merchant bankers as stipulated by SEBI?
   - (1) Maintenance of high degree of standards of integrity and fairness in dealings
   - (2) Providing true and adequate information to investors and abide by the provisions of various acts, rules and regulations etc
   - (3) Ethical conduct of business and provision of information to customers in respect of code
   - (4) All of the above
   - (5) None of the above

8. When banks make advances to limited companies against their assets, the required forms are to be presented to the Registrar companies within .... from the date of execution.
   - (1) 21 days
   - (2) 30 days
   - (3) 1 month
   - (4) 2 months
   - (5) None of these

9. Which of the following agencies/organisations has decided to make major changes for ULIPs?
(1) IRDA (2) RBI
(3) AMFI (4) FRBI
(5) None of these

10. Power of attorney is a stamped document and generally executed in the presence of
(1) a Notary Public
(2) a Magistrate of a Court
(3) an Authorised Government official
(4) All of the above
(5) None of the above

11. Federal Reserve is the Central Bank of which of the following countries?
(1) Russia (2) Britain
(3) Canada (4) Australia
(5) USA

12. Which of the following is not an example of primary securities?
(1) Bills (2) Bonds
(3) Shares (4) Book debts
(5) New currency

13. First share market in India was established in
(1) Delhi (2) Mumbai
(3) Kolkata (4) Chennai
(5) None of these

14. 'Nomination' for a Deposit account in the bank means
(1) mandate given by the close relative(s) of the depositor, to settle the death claim in case of death of the depositor
(2) mandate decided by the bank to settle the death claim of its depositor
(3) mandate of the depositor in favour of one or more persons, to claim the amount on death of the depositor
(4) mandate of the depositor in favour of a close relative who can claim the amount on death of the depositor
(5) court order instructing the banks to settle the death claim of its depositor

15. Which of the following instruments cannot be presented for payment in a clearing house?
(1) Demand draft (2) Dividends
(3) Fixed deposit receipt (4) All of these
(5) None of these

16. The main function(s) of SIDBI is/are
(1) to provide refinance for loans and advances extended by the primary lending institutions to SSI units and also to provide resources support to them
(2) it discounts and rediscounts bill arising from sale of machinery to or manufactured by industrial units in the SSI sector
(3) it extends seed capital/soft loan assistance under National Equity Fund, Mahila Udyam Nidhi and Mahila Vikas Nidhi and Seed Capital Schemes through specified lending agencies
(4) All of the above
(5) None of the above

17. The right of set-off is
(1) customer's right
(2) customer's obligation
(3) banker's right
(4) banker's discretion
(5) None of the above

18. Which of the following is/are objective(s) of our Monetary Policy?
I. To anchor inflation expectations.
II. To actively manage liquidity.
III. To maintain interest rate regime consistent with price output and financial stability.

Select the correct answer using the codes given below
(1) Only I
(2) Only II
(3) I and III
(4) All of the above
(5) None of the above

19. The sponsor bank helps and aids the RRB sponsored by it, by
I. subscribing to its share capital.
II. training its personnel.
III. providing managerial and financial assistance during the first 5 years or extended period.

Select the correct answer using the codes given below
(1) I and II (2) II and III
(3) I and III (4) All of these
(5) None of these

20. The land development banks play a crucial role in
(1) the provision of investment credit for agriculture
(2) providing crop loans to the farmers
(3) expanding social forestry
(4) developing allied activities in rural sector
(5) None of the above

21. The Reserve Bank of India had divested its stake in State Bank of India to
(1) IDBI Bank (2) LIC
(3) ICICI Bank (4) Government of India
(5) None of these

22. Regional Rural Banks (RRBs) are classified as
(1) scheduled commercial banks
(2) subsidiaries of the sponsor banks
(3) subsidiaries of NABARD
(4) All of the above
(5) None of the above

23. What is not a mechanisms that contributes to the success of micro credits?
(1) Dynamic incentives (2) Peer monitoring
(3) Regular repayment schedules
(4) collaterals (5) All of these

24. For issuing notes, RBI is required to hold the minimum reserves of ₹ 200 crore of which not less than ₹ ....crore to be hold in gold.
(1) 85 (2) 100 (3) 115 (4) 125
(5) 200

25. The index of financial inclusion has been launched for the first time in 2008 by
(1) CII (2) FICCI (3) NCAER
(4) ICRIER (5) IIFI

26. New private banks are being given licenses since
(1) 1991 (2) 1992 (3) 1993 (4) 1995
(5) 2001

27. The Business Correspondence Model being adopted by the banks provides banking facilities to which of the following?
(1) Only corporate borrowers
(2) Only weaker sections the society and people of small villages
(3) Only those who are taking housing loans
(4) All of these (5) None of these

28. What is an Indian depository receipt?
(1) A deposit account with a public sector bank
(2) A depository account with any of depositories in India
(3) An instrument in the form of depository receipt created by an Indian depository against underlying equity shares of the issuing company
(4) An instrument in the form of deposit receipt issued by Indian depositories
(5) None of the above

29. Which of the following agencies/organisations in India maintains the Micro Finance Development and Equity Fund which was in news recently?
(1) Confederation of Industries in India (CII)
(2) Indian Bank's Association (IBA)
(3) Small Industries Development Bank of India (SIDBI)
(4) Reserve Bank of India (RBI)
(5) National Bank for Agriculture and Rural Development (NABARD)

30. NEFT and RTGS in banking terminology speaks of
(1) various deposit products
(2) various loan products
(3) electronic payment products within a bank
(4) electronic fund transfer from bank to bank
(5) cheque truncation process

31. Each of the RRBs covers districts ranging from
(1) 1 to 15 (2) 2 to 25 (3) 3 to 25 (4) 2 to 15
(5) 1 to 5

32. As per news in various newspapers, 'kfw' Group released another instalment of its financial aid to India. kfw is an organisation/bank based in
(1) France (2) Japan (3) Italy (4) China
(5) Germany

33. Crossing of cheques makes them
(1) invalid document
(2) ineligible to endorse to person other than the payee
(3) remain the same in all respect, it is only a practice
(4) eligible for payment irrespective of sufficient balance in the account
(5) ineligible to get cash across the bank counter

34. When a bank dishonours a cheque,
(1) it is called settlement of the cheque
(2) it is called withdrawing of the cheque
(3) it is called nullifying of the cheque
(4) it is called truncating of the cheque
(5) it is called return of the cheque unpaid

35. In a bank which of the following are the usual types of Deposit accounts?
(1) Savings accounts, Electricity accounts and Insurance Premium accounts
(2) Fixed deposits, Postoffice Savings Bank accounts and Current Deposit accounts
(3) Current Accounts, Saving Bank accounts and Term Deposit accounts
(4) Loan accounts, Savings Bank accounts and Term Deposit accounts
(5) Current Bill accounts and Term Deposit accounts

36. Which of the following cannot be called as a value added service offered by a bank ?
(1) Special accounts for poor sections of society
(2) Accident insurance cover
(3) Instant credit of outstation cheques
(4) Free cheque books
(5) All of these

37. An account in which trading of shares in their electronic form is done, is known as
(1) D-mat account
(2) NRI account
(3) NRIO account
(4) Current account
(5) None of these

38. Mortgage is a security created on
(1) movable property for a loan given by a bank
(2) immovable property for a deposit received by a bank
(3) a confirmation of immovable property given by a bank
(4) movable property for a deposit given by a bank
(5) immovable property for a loan given by a bank

39. A Savings Bank Account opened with a commercial bank with zero balance or very minimal balance is known as
(1) Savings Bank Ordinary account
(2) Student Savings Bank account
(3) No-Frill account
(4) Current account
(5) Call deposit

40. The sensitive index of the Bombay Stock Exchange keeps on changing positively and negatively both. Which of the following is/ are the main reasons which contribute for his sudden change in the same ?
I. Higher GDP Growth.
II. Continuous foreign funds flow.
III. High volume of forex reserves.
IV. Recession in USA.

Select the correct answer using the codes given below
(1) I and II
(2) II and III
(3) III and IV
(4) Only II
(5) All of these

41. Travellers cheque is
(1) a supplementary credit card
(2) a cheque issued by a bank or finance institution which functions as capital
(3) a certificate issued by a bank or finance institution in lieu of cash
(4) a cheque issued by a bank or finance institution which functions as a bond
(5) a prepaid instrument issued by a bank or finance institution which can be substitute of cash

42. As per the reports in the leading newspapers, Securities and Exchange Board of India (SEBI) has asked the mutual fund industry to stop 'Misselling' their schemes to investors. What is 'Misselling' of products?
I. Misselling takes place when mutual funds are sold without telling the likely returns.
II. When agents sell the products without telling investors what are the risks involved in investing in mutual funds.
III. When agents invest somebody's money in mutual funds without their knowledge, it is called misselling.

Select the correct answer using the codes given below
(1) Only I
(2) Only II
(3) Only III
(4) All of these
(5) None of these

43. Consumer banks are usually found in?
(1) India and Pakistan
(2) India and UK
(3) USA and Germany
(4) Russia and China
(5) China and India

44. A customer wishes to purchase some US dollars in India. He/She should go to

(1) Public Debt Division of the RBI
(2) American Express Bank
(3) RBI or any branch of a bank which is authorised for such business
(4) Ministry of Foreign Affairs
(5) None of the above

45. Which of the following is the correct definition of the term commercial papers ?

I. It is nothing but the popular name of the judicial stamp papers used to register financial transactions.
II. It is one of the instruments through which corporates raise debt from the market.
III. It is the name of the 'Certificate of Deposits' (CD) provided by the banks to its retail customers.

Select the correct answer using the codes given below

(1) Only I
(2) Only II
(3) Only III
(4) Both I and II
(5) All of these

46. Banks and other institutions have issued debit and credit cards, the purpose of both are

(1) the same, to make paperless payments
(2) different, since in credit card, the account is credited with the amount while in debit card the account is debited
(3) the same, there is risk weight-age of 125% in both the cards
(4) different, since in debit cards interest for delayed period is charged while in credit cards no such interest is charged by banks
(5) None of the above

47. India is following a system of 'flat money' while issuing currency. What is 'fiat money'?

(1) The currency is backed by government guarantee
(2) The currency is backed by tangible assets
(3) The currency is backed by gold reserves
(4) The currency is backed by budgetary support
(5) None of the above

48. The word 'Bank' is derived from

(1) German word 'back' which means 'a joint stock fund'
(2) Italian word 'banco'
(3) words 'bancus' or 'banque' which means 'a bench'
(4) All of the above
(5) None of the above

49. For availment of refinance from National Housing Bank, scheduled commercial bank has to satisfy which of the following conditions?

(1) The capital adequacy ratio of the banks should be as per the norms prescribed by the Reserve Bank of India
(2) The net non-performing assets to the net advances of the bank should not exceed 10%
(3) The scheduled commercial bank has earned profit for the last 2 years
(4) All of the above
(5) None of the above

50. In January, 1998, the Reserve Bank of India introduced new regulatory framework for safeguarding the interest of depositors. The guidelines comprises

(1) NBFCs falling short of the stipulated minimum Net Owned Funds (NOF) were precluded from accepting public deposits
(2) An NBFC not having minimum credit rating as prescribed by RBI is not eligible to accept fresh deposits
(3) Ceiling on the quantum public deposits was related to the level of credit rating given by the approved credit rating agencies
(4) All of the above
(5) None of the above

Answers

1. (3)	2. (2)	3. (4)	4. (4)	5. (4)	6. (1)	7. (4)	8. (2)	9. (1)	10. (4)
11. (5)	12. (5)	13. (2)	14. (4)	15. (3)	16. (4)	17. (4)	18. (2)	19. (4)	20. (1)
21. (4)	22. (1)	23. (4)	24. (3)	25. (4)	26. (3)	27. (4)	28. (3)	29. (5)	30. (4)
31. (2)	32. (5)	33. (2)	34. (5)	35. (3)	36. (2)	37. (1)	38. (5)	39. (3)	40. (5)
41. (5)	42. (4)	43. (3)	44. (3)	45. (2)	46. (1)	47. (1)	48. (4)	49. (4)	50. (4)

Banking Awareness

Practice Set 11

1. The Unique Identity Project or UID has been given a brand name for ready identification. Which is the name approved?
(1) Abhigyan (2) Asmita
(3) Aasha (4) Aadhar

2. Inflation is measured in India on the basis of which index?
(1) Consumer price index
(2) Wholesale price index
(3) Retail price index (4) Market forces

3. Who decides on the value and volume of bank notes to be printed and on what basis?
(1) Finance Ministry
(2) Planning Commission
(3) RBI (4) Stock exchange

4. RBI prescribes the cash reserve ration to be maintained by banks as part of prudential norms. In what way is this cash reserve maintained by the banks?
(1) It is kept as reserves of gold with RBI
(2) It is maintained as cash with RBI
(3) Each bank keeps the reserve in their respective head offices
(4) It is maintained as investments in government bonds

5. RBI has reduced by one percentage point the Statutory Liquidity Ratio required to be maintained by banks to 23%. In what form is this stipulation reacquired to be fulfilled?
(1) Banks are required to keep the amount in approved government securities of the appropriate value
(2) The amount to be maintained in cash and securities with RBI
(3) The required amount is to be maintained in gold with RBI
(4) All of the above
(5) None of the above

6. Which of the following accounts for the maximum share in India's foreign exchange reserves?
(1) Gold reserves (2) NRI deposits
(3) Special depository receipts
(4) Foreign currency assets

7. Cash Reserve Ratio to be maintained is expressed as a percentage of the bank's NDTL. What is the full form of NDTL?
(1) National Deposits and Total Liabilities
(2) Net Demand and Term Liabilities
(3) National Demand and Total Liabilities
(4) New Deposits and Term Liabilities

8. SWIFT is a network for banks to exchange information. What is the expended form?
(1) Safe window for international transactions
(2) Secured worldwide international transactions
(3) Society for worldwide interbank financial telecommunications
(4) All of the above
(5) None of the above

9. Which of the following units is known as 'paper gold'?
(1) Euro dollars
(2) Special drawing rights
(3) Global depository receipts
(4) Petro dollars

10. The foreign exchange rate is dependent on which of the following?
(1) Government policies
(2) Monetary policy directives
(3) Demand and supply forces
(4) Foreign exchange reserves

11. Regional rural banks are working in all the states of India except
(1) Sikkim (2) Jammu and Kashmir
(3) Goa (4) Sikkim and Goa
(5) Assam

12. What is the maximum denomination for which coins can be produced in India?
(1) ₹ 1000 (2) ₹ 10 (3) ₹ 100 (4) ₹ 50
(5) ₹ 5

13. The chief economic adviser to the Government of India has recently changed. Who is the present incumbent?
(1) Raghurm Rajan (2) Bimal Jalan
(3) Rakesh Mohan (4) Kaushik Basu
(5) YV Reddy

14. Who is the appointing authority for the banking ombudsman?
(1) RBI
(2) Finance Ministry
(3) PMO
(4) Team of PM, Finance Minister and RBI Governor
(5) 1 and 3

15. Which is the largest associate bank of State Bank of India?
(1) State Bank of Patiala
(2) State Bank of Hyderabad
(3) State Bank of Bikaner and Jaipur
(4) State Bank of Saurashtra
(5) State bank of Assam

16. Which bank has a special account '2611' wherein people can deposit funds for 20/11 Mumbai victims?
(1) Axis Bank (2) ICICI Bank
(3) HDFC Bank (4) Kotak Bank
(5) Punjab National Bank

17. In the context of banking what is CRAR?
(1) Current Risk and Return
(2) Current Ratio and Risk
(3) Capital to Risk Weighted Assets Ratio
(4) Capital to Risk and Return

18. Which of the following is a nostro account?
(1) Account of a foreign bank in India
(2) Account of an Indian bank within another bank overseas
(3) Account of a non-resident Indian
(4) All of the above
(5) None of the above

19. Which of the following public sector banks is regarded as being the first to launch its own Mutual Fund Scheme?
(1) SBI (2) PNB
(3) Bank of India (4) Canara Bank
(5) ICICI Bank

20. When did RBI demonetise 25 paise coins in the country?
(1) 2010 (2) 2008
(3) 2011 (4) 2009
(5) 2005

21. The formation of the 14th Finance Commission in India has been finalized. Who has been appointed to head the commission?
(1) D Subba Rao
(2) YV Reddy
(3) Montek Singh Ahluwalia
(4) Raghuram Rajan
(5) Rakesh Mohan

22. The financial year for banks is April-March, but what is the funancial year for RBI?
(1) January-December (2) April-March
(3) July-June (4) October-September
(5) June-May

23. The rate of interest payable on a bank deposit is determined by
(1) Indian Banks' Association
(2) the bank concerned
(3) RBI
(4) Finance ministry
(5) SBI

24. The maximum period for which a fixed deposit can be accepted by a commercial bank is
(1) 10 years (2) 15 years
(3) no limit (4) 8 years
(5) 5 years

25. RBI stipulates a healthy mix of CASA in the business figures of banks. What does it denote?
(1) Customer Analysis and Savings Pattern
(2) Cost Appreciation and Selling Analysis
(3) Current Account and Savings Account
(4) Credit and Savings Aggregate

26. Which of the following is the drawee bank in respect of a cheque?
(1) The payee's bank
(2) The bank which collects the cheque
(3) The bank on which the cheque is drawn
(4) The endorsee's bank

27. A currrent account in a bank means
(*1*) in which balances are kept high
(*2*) interest is not paid on the balance in the account
(*3*) in which transactions should take place daily
(*4*) availing credit facilities

28. Who is a banking ombudsman?
(*1*) The chief vigilance officer of a bank
(*2*) The chairman of a bank
(*3*) An official in the Finance Ministry, Government of India
(*4*) An independent authority appointed by RBI to address customer complaints

29. Know Your Customer (KYC) norms are required to be strictly followed by banks. It means
(*1*) providing imporved customer services
(*2*) determining the identity and residence proof of account holders through approved documents
(*3*) ensuring that staff members know the customers
(*4*) organising regular customer service meetings

30. Sovereign Wealth Funds (SWFs) are in the news. What are they?
(*1*) Money of the underground economy
(*2*) State run and managed investments
(*3*) Investments of the British royal family
(*4*) Investments of the oil producing countries

31. Which of the following factors affect the interest rates?
(*1*) Inflation rate
(*2*) Government borrowings
(*3*) Supply of money
(*4*) All of the above
(*5*) None of the above

32. Which of the following means of lending is considered as a priority sector loan?
(*1*) Loan for purchase of gold for marriage of daughter
(*2*) Car loan
(*3*) Housing loan
(*4*) Loan for purchase of tractor
(*5*) Education loan

33. Which of the following does not qualify as priority sector lending?
(*1*) Agricultural lending (*2*) Education loans
(*3*) Auto loans (*4*) Loans to small scale sector
(*5*) Housing loan

34. When economists speak of angel investors, seed funds, venture capitals what do they intend to convey?
(*1*) Suggests people wishing ot invest in financial compnies
(*2*) Means type of investors willing to promote a new business idea/ventrue
(*3*) Indicates foreign investors with substantial financial strength
(*4*) Means high net worth individuals looking for suitable investments

35. ECB is a means of raising funds from overseas. What is its full form?
(*1*) External Commercial Borrowing
(*2*) Essential Commodities Borrowing
(*3*) External Credit and Business
(*4*) Essential Commodity Buyers

36. Which of the following organisation maintains the individual borrower's credit history in India?
(*1*) RBI (*2*) CRISIL (*3*) CIBIL (*4*) CARE

37. The term 'bridge loans' in the banking context means
(*1*) loans given for construction of infrastructure projects
(*2*) loans given to companies engeged in construction activity
(*3*) short-term facility allowed by banks pending disbursement of term loans to customers
(*4*) loans as part of temporary funding to borrowers in construction activity

38. The lead bank secheme for public sector banks does not cover
(*1*) metropolitan cities
(*2*) all states and union territories
(*3*) backward districts (*4*) rural areas only

39. Which of the following would be treated as an unsecured loan?
(*1*) Agricultural loan (*2*) Personal loan
(*3*) Educational loan (*4*) Vehicle loan
(*5*) Housing loan

40. Knowing the credit Card Verification Value (CVV) of a credit card is like having a signed blank cheque. What is this CVV?

(1) The special password
(2) The three digit number on the reverse of the card
(3) The internet password
(4) The double authentication password
(5) The account password

41. The term ‘blue chip’ company denotes

(1) preference shares of public limited companies
(2) shares initially allotted to promoter directors
(3) government securities printed in blue ink which is readily marketable
(4) shares of professionally managed companies with impressive track record

42. Financial inclusion is a programme of the government to cover the maximum population with bank accounts. What is the current coverage?

(1) 25% *(2)*15% *(3)* 40% *(4)* 65%
(5) 70%

43. Financial inclustion is meant for?

(1) Less provileged persons
(2) Senior citizens
(3) Micro finance institutions
(4) All of the above
(5) None of the above

44. Financial inclusion is being emphasised by RBI for

(1) providing basic banking services to the unbanked areas
(2) providing loans to the unbanked population
(3) opening accounts for the poor
(4) bringing branches of all banks under one authority

45. When we talk of smart money what are we referring to?

(1) Foreign currency *(2)* Internet banking
(3) Credit cards *(4)* Treasury bills

46. Which of following is necessary to transfer funds through the RTGS facility?

(1) Beneficiary's bank account number
(2) The IFSC number of the beneficiary's bank branch
(3) There is a minimum amount specified for transfer
(4) All of the above *(5)* None of the above

47. How can a Indian Financial Services Code number be identified?

(1) It is a 11 digit alpha numeric code
(2) It is available on the chaque leaves of an individual's cheque book
(3) It is provided by the bank if asked
(4) All of the above
(5) None of the above

48. In E-commerce what is meant by B2B?

(1) It means trade between business to business
(2) The deals between business to banks
(3) It suggests transactions between banks and capitalists
(4) All of the above *(5)* None of the above

49. What is the name given to the online payment services that all internet banking custormers can use?

(1) E pay *(2)* E-commerce
(3) ECS *(4)* All of these
(5) None of these

50. Which bank in India has introduced vertical credit cards?

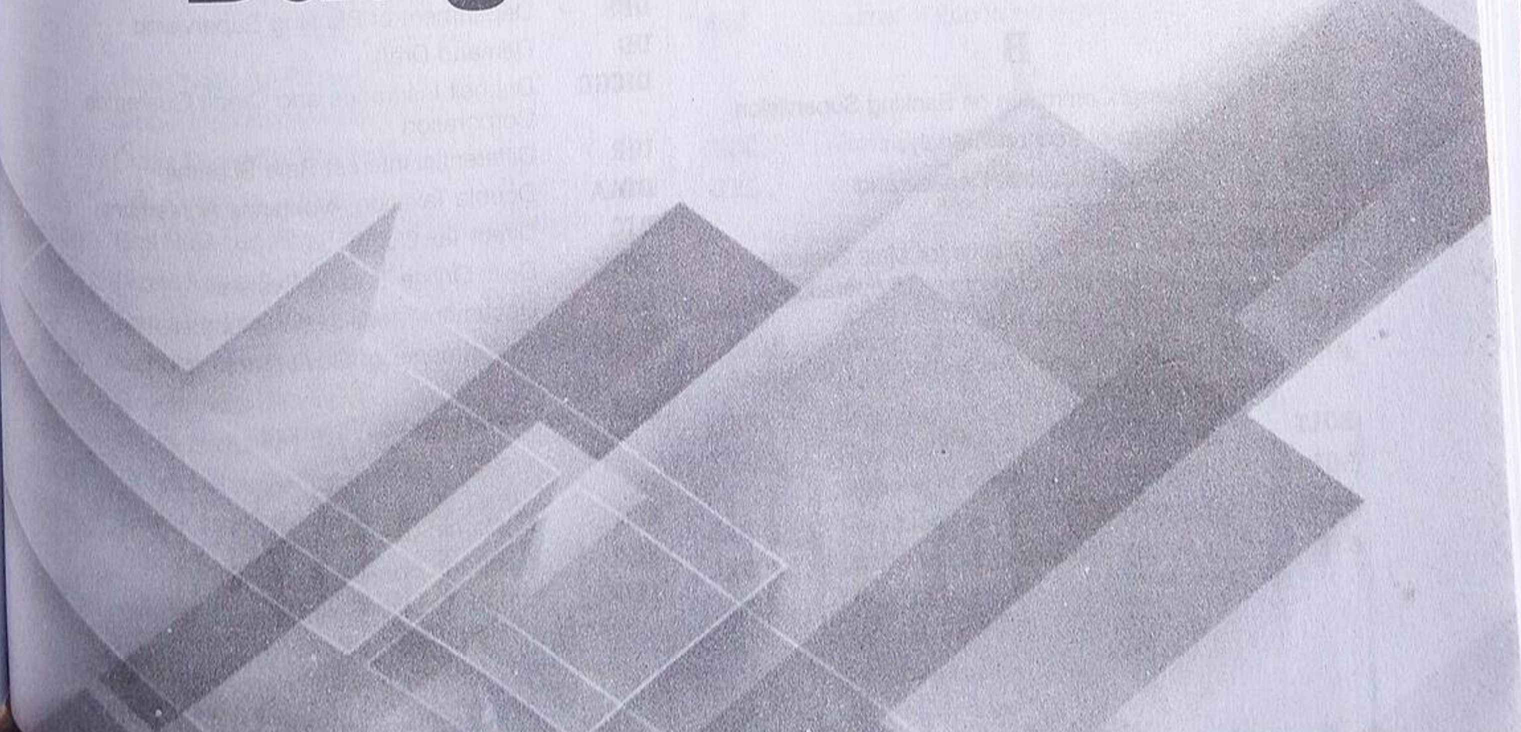
(1) Kotak Bank *(2)* Yes Bank
(3) HDFC Bank *(4)* ICICI Bank
(5) SBI

Answers

1. (4)	2. (2)	3. (3)	4. (2)	5. (1)	6. (4)	7. (2)	8. (3)	9. (2)	10. (3)
11. (4)	12. (1)	13. (1)	14. (1)	15. (2)	16. (1)	17. (3)	18. (2)	19. (1)	20. (3)
21. (2)	22. (3)	23. (2)	24. (1)	25. (3)	26. (3)	27. (2)	28. (4)	29. (2)	30. (2)
31. (4)	32. (4)	33. (3)	34. (2)	35. (1)	36. (3)	37. (3)	38. (1)	39. (2)	40. (2)
41. (4)	42. (3)	43. (1)	44. (1)	45. (3)	46. (4)	47. (4)	48. (1)	49. (1)	50. (1)

➔ Abbreviation

➔ Budget 2015-16



Abbreviation

A

AAY	Antyodaya Anna Yojna
ABC	Activity Based Costing
ABP	Automotic Bill Payments
ACH	Automatic Clearing House
AFS	Annual Financial Report
ACR	Actual Cost Report
ACRS	Accelerated Cost Recovery System
ACWP	Actual Cost for Work Performed
ADB	Asian Development Bank
ADR	American Depository Receipt
ADWDR	Agriculture Debt Waiver and Debt Relief
AIRCSC	All India Rural Credit Survey Committee
AITUC	All India Trade Union Congress
AMFI	Association of Mutual Fund of India
ANBC	Adjusted Net Bank Credit
APEC	Asia Pacific Economic Co-operation
ASBA	Application Supported by Blocked Amount
ASEAN	Association of South-East Asian Nation
ASHA	Accredited Social Health Activist
ASSOCHAM	Associated Chambers of Commerce and Industry of India
ATM	Automated Teller Machine/Asynchronous Transfer Mode

B

BCBS	Bessel Committee on Banking Supervision
BEA	Bureau of Economic Analysis
BIFR	Board of Industrial Finance and Reconstruction
BIMSTEC	Bay of Bengal Initiative for Multi Sectoral Technical and Economic Co-operation
BER	Bank Exchange Rate
BIS	Bank of International Settlement / Bureau of Indian Standards
BOLT	Build Own Lease Transfer
BOP	Balance of Payment
BRS	Base Rate System
BSE	Bombay Stock Exchange

CC	Cash Credit
CCB	Credit Card Business
CD	Certificate of Deposit
CAA	Cost Accounting Authorisation
CAD	Capital Account Deficit
CASB	Cost Accounting Standing Board
CCEA	Cabinet Committee on Economic Affairs
CCFI	Cabinet Committee on Foreign Investment
CEC	Center for Economic Catch up
CEM	Cost Estimating Method
CENVAT	Central Value Added Tax
CER	Cost Estimating Relationship
CFSA	Certified Financial Service Auditor
CLRB	Cost Limit Review Board
COCOMO	Constructive Cost Model
COLA	Cost of Living Adjustment
CPI-AL	Consumer Price Index for Agricultural Labour
CPI-IW	Consumer Price Index for Industrial Workers
CRAR	Capital to Risk Weighted Asset Ratio
CRISIL	Credit Rating Information Services of India Limited
CTS	Cheque Truncation System
CD	Certificate of Deposit

D

DBS	Department of Banking Supervision
DD	Demand Draft
DICGC	Deposit Insurance and Credit Guarantee Corporation
DIR	Differential Interest Rate Scheme
DTAA	Double Taxation Avoidance Agreement
DTC	Direct Tax Code
DOTS	Delhi Online Trading System
DIN	Document Identification Number
DGBA	Departments of Government and Bank Account, RBI
DVP	Delivery Versus Payment

E

ECS	Electronic Clearance Service
EBA	European Banking Authority
ECGC	Export Credit Guarantee Corporation of India Limited

ECB	European Central Bank
EBITDA	Earning Before Interest, Taxes Depreciation and Amortisation
EEFC	Export Earners Foreign Currency
ETF	Exchange Trade Fund
EMI	Equated Monthly Installments
EWP	Early Withdraw Penalty

F

FDI	Foreign Direct Investment
FII	Foreign Institutional Investment
FCRA	Foreign Contribution Regulation Act
FCCB	Foreign Currency Convertible Bonds
FERA	Foreign Exchange Regulation Act
FICCI	Federation of Indian Chambers of Commerce and Industry
FLCC	Financial Literacy and Credit Counselling Center
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FATF	Financial Action Task Force
FCNA (B)	Foreign Currency Non-residents Accounts (Banks)
FRBM	Fiscal Responsibility and Budget Management
FSDC	Financial Stability and Development Council
FSLRC	Financial Sector Legislative Reforms Commission
FEMA	Foreign Exchange Management Act
FCNRD	Foreign Currency Non- Repatriable Deposit
FRN	Floating Rate Note
FPI	Foreign Portfolio Investment

G

GNP	Gross National Product
GDR	Global Depository Receipt
GDP	Gross Domestic Product
GIC	Gas Inventory Charge
GRADE	Gas Revenue Accounting Data Exchange
GFD	Gross Fiscal Deficit
GPD	Gross Primary Deficit
GPF	General Provident Fund
G-Sec	Government Securities
GBS	Gross Budgetary Support
GDCF	Gross Domestic Capital Formation
GSTN	Goods and Services Tax Network
GSTP	Global System of Trade Preference
GAAR	General Anti - Avoidance Rule

I

IIBF	Indian Institute of Banking and Finance
IFFCO	Indian Farmers Fertilizers Co-operative Limited
IFRS	International Financial Reporting Standards
IRDA	Insurance Regulatory and Development Authority
ICICI	Industrial Credit and Investment Corporation of India Limited
IMF	International Monetary Fund
INR	Indian Rupee
IDRBT	Institute for Development and Research in Banking Technologies
IRDP	Integrated Rural Development Programme
IBM	International Business Machine
ICOR	Incremental Capital Output Ratio
ICRA	Investment Information and Credit Rating Agency
IIDC	Infrastructure Leasing and Financial Services Limited
IPO	Initial Public Offerings
IICA	Indian Institute of Corporate Affairs
IMD	Indian Millennium Deposits
IIBI	Industrial Investment Bank of India
INR	Indian Rupees
IRBI	Industrial Reconstruction Bank of India
ISO	International Organisation for Standardization

J

JNURM	Jawaharlal Nehru Urban Renewal Mission
JEF	Japan Economic Foundation
JEH	Journal of Economic History

K

KCC	Kisan Credit Card
KYC	Know Your Customer

L

LBS	Lead Bank Scheme/Locational Banking Statistics
LIBOR	London Inter-Bank Offered Rate
LTFP	Long Term Fiscal Policy
LAS	Loan and Advances by States
LERMS	Liberalised Exchange Rate Management System
LIC	Life Insurance Co-operation of India
LTO	Long Term Operation
LC	Letter of Credit

M

M1	Narrow Money
M3	Broad Money
MSEs	Medium and Small Enterprises
MFI	Melt Flow Index
MRTP	Monopolistic and Restrictive Trade Practice
MRTS	Marginal Rate of Technical Substitution

N

NSSF	National Social Security Fund
NIFA	National Institute of Finance and Accounts
NRFIP	National Rural Financial Inclusion Plan
NABARD	National Bank for Agriculture and Rural Development
NGO	Non Government Organization
NBFC	Non-Banking Financial Companies
NPA	Non-Performing Assets
NASSCOM	National Association of Software and Services Companies

O

OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of the Petroleum Exporting Countries
OD	Over Draft

P

PURA	Provision of Urban Amenities in Rural Areas
PPP	Purchasing Power Parity/Public Private Partnership
POS	Point of Sale
PAN	Permanent Account Number
PF	Provident Fund
PD	Primary Deficit

R

RBI	Reserve Bank of India
RCBI	Rural Co-operative Bank in India
RRB	Regional Rural Bank
RR	Revenue Receipts

S

SDR	Special Drawing Right
SEU	Single Event Upset
SHG	Self Help Group
SEWA	Self Employed Women's Association
SEPA	Single Euro Payment Area
SEZ	Special Economic Zone
SEBI	Securities and Exchange Board of India
SIDBI	Small Industries Development Bank of India
STRIPS	Separate Trading of Registered Interest and Principal Securities
RNBC	Residuary Non-Banking Company
RO	Regional Office
START	Strategic Arms Reduction Treaty
SCO	Shanghai Co-operation Organisation
SHCIL	Stock Holding Corporation of India Limited
SCARDB	State Co-operative Agricultural Rural Development Bank
SWAN	State Wide Area Network

T

TPF	Transaction Processing Facility
TRAI	Telecom Regulatory Authority of India
TRIPS	Trade Related Intellectual Property Rights

U

UNEP	United Nation Environment Programme
ULIP	Unit Linked Insurance Plan
UTI	Unit Trust of India
UDI	Understanding Deposit Insurance
UUB	Understanding Universal Banking
UCB	Urban Co-operative Bank
UNFPA	United Nation Population Fund

V

VCFs	Venture Capitalist Funds
VAT	Value Added Tax

W

WEF	World Economic Forum
WPI	Wholesale Price Index
WTO	World Trade Organisation

Z

ZBA	Zero Balance Account
ZO	Zonal Office

UNION BUDGET

2015-16

A Big Leap Forward

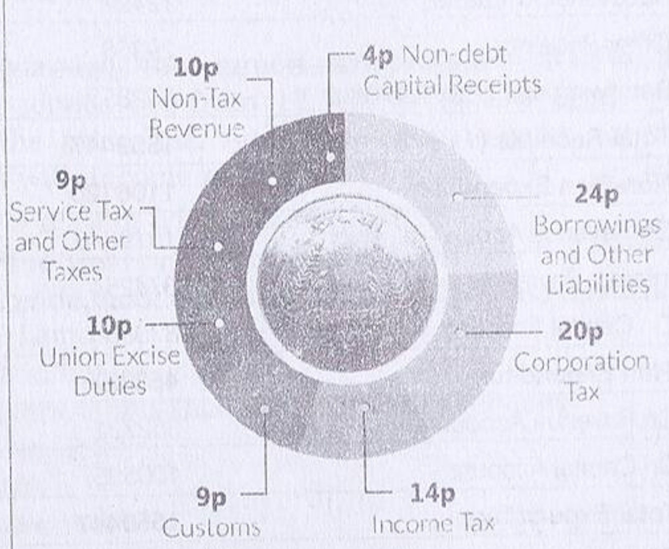
Finance Minister Arun Jaitley presented the Union Budget 2015-16 in the Lok Sabha on February 28, 2015. The Finance Minister has said that the Indian Economy has turned around dramatically in the last nine months with the real GDP growth expected to accelerate to 7.4% making India the fastest growing large economy in the world.

The government will borrow ₹ 6 lakh crore from the market in 2015-16 fiscal, up from ₹ 5.92 lakh crore in the current fiscal. The budgeted target for borrowing in current fiscal was ₹ 6 lakh crore, but the government will raise only ₹ 5.92 lakh crore from the markets. However, the net borrowings in 2015-16 will be ₹ 4.56 lakh crore, after considering repayments of past loans and interests. It was ₹ 4.53 lakh crore in current fiscal. The government borrows from the markets through T-bills and other instruments to fund the fiscal deficit.

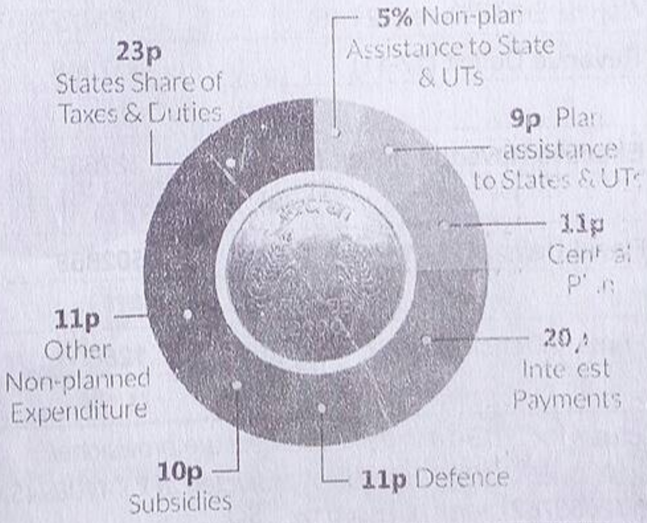
Major Challenges

- Agricultural incomes are under stress.
- To increase investment in infrastructure. With private investment in infrastructure *via* the Public Private Partnership (PPP) model still weak, public investment needs to step in, to catalyse investment.
- Manufacturing has declined from 18% to 17% of GDP as per new GDP data; and manufacturing exports have remained stagnant at about 10% of GDP. The Make in India programme is aimed at meeting this challenge, thus creating jobs.
- Need for fiscal discipline in spite of rising demands for public investment. In keeping with the true spirit of cooperative federalism, we have devolved a 42% share of the divisible pool of taxes to States. The devolution to the States would be of the order of ₹5.24 lakh crore in 2015-16 as against the devolution

Rupee Comes From



Rupee Goes To



of ₹ 3.38 lakh crore as per revised estimates of 2014-15. Another ₹ 3.04 lakh crore would be transferred by way of grants and plan transfers. Thus, total transfer to the States will be about 62% of the total tax receipts of the country.

In spite of the consequential reduced fiscal space for the centre, the government has decided to continue supporting important national priorities such as agriculture, education, health, MGNREGA, and rural infrastructure including roads. Programmes targeted for the poor and the under-privileged, will be continued by us.

Budget (In Crore of Rupees)

	2013-14	2014-15	2014-15	2015-16
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates
Revenue Receipts	1014724	1189763	1126294	1141575
Tax Revenue (Net to Centre)	*815854*	*977258*	*908463*	*919842*
Non-Tax Revenue	*198870*	*212505*	*217831*	*221733*
Capital Receipts (5+6+7)$	544723	605129	554864	635902
Recoveries of Loans	*12497*	*10527*	*10886*	*10753*
Other Receipts	*29368*	*63425*	*31350*	*36500*
Borrowing and other liabilities	*502858*	*531177*	*512628*	*555649*
Total Receipts (1+4) $	1559447	1794892	1681158	1777477
Non-Plan Expenditure	1106120	1219892	1213224	1312200
On Revenue Account of which	*1019040*	*1114609*	*1121897*	*1206027*
Interest Payments	*374254*	*427011*	*411354*	*45145*
On Capital Account	*87080*	*105283*	*91327*	*106173*
Plan Expenditure	453327	575000	467934	465277
On Revenue Account	*352732*	*453503*	*366883*	*330020*
On Capital Account	*100595*	*121497*	*101051*	*135257*
Total Expenditure	1559447	1794892	1681158	1777477
Revenue Expenditure (10+4)	*1371772*	*1568111*	*1488780*	*1536047*
Of which, Grants of creation of Capital Assets	*129418*	*168104*	*131898*	*110551*
Capital Expenditure (12+15)	*187675*	*226781*	*192378*	*241430*
Revenue Deficit (17-11)	357048	378348	(362486)	374472
	(3.1)	(2.9)	(2.9)	(2.8)
Effective Revenue Deficit (20-)	227630	210244	230588	283921
	(2.0)	(1.6)	(1.8)	(2.0)
Fiscal Deficit {16-(1+5+6)}	502858	531177	512628	555649
		(4.1)	(4.1)	(3.9)
Primary Deficit (22-11)	128604	104166	1012744	99504
	(1.1)	(0.8)	(0.8)	(0.7)

Actuals for 2013-14 in this document are provisional.

GDP for BE 2015-16 has been projected at ₹ 14108945 crore assuming 11.5% growth over the Advance Estimates of 2014-15 (₹ 12653762 crore) released by CSO.

With fiscal space not just reduced but squeezed, and to meet the fifth challenge of maintaining fiscal discipline. Economic growth this year, at 11.5%, was lower in nominal terms by about 2%, due to lower inflation. Consequently, tax buoyancy was also significantly lower.

Fiscal Roadmap

The total additional public investment over and above the RE is planned to be ₹ 1.25 lakh crore out of which ₹ 70000 crore would be capital expenditure from budgetary outlays. Government of India will complete the journey to a fiscal deficit of 3% in 3 years, rather than the two years envisaged previously. Thus, for the next three years, targets are: 3.9%, for 2015-16; 3.5% for 2016-17; and, 3.0% for 2017-18.

The main highlights in income tax is as follows

- Abolition of wealth tax. Corporate tax to come down from 30% to 25% over the next 3 year period.
- Transfer pricing requirement for corporate assesses the limit increased from ₹ 5 crore to ₹ 20 crore which will bring down the work load of income tax officers.
- Mediclaim policy limit increased from ₹ 15000 to ₹ 25000 (₹ 30000 for Senior Citizen) under Section-80D.
- Pension fund exemption increase from ₹ 100000 to ₹ 150000 under Section-80 CCD (Savings based)

Saving Grace

Current Structure of Personal Income Tax

Income	Tax rate (%)
Up to ₹ 2.5 lakh	Nil
Between ₹ 2.5 to ₹ 5 lakh	10
Between ₹ 5 to 10 lakh	20
Above ₹ 10 lakh	30

- Surcharge of 10% on the tax liability if total income is more than ₹1 crore
- Education, higher education cess at 3%
- Deduction under Section-80C : ₹1.5 lakh (raised from ₹1 lakh in FY15 Budget)
- Proposed change : Merging the ₹1.5 lakh deduction under section 80C with the exemption limit and consequent changes in upper slabs

- Under Section-10, Conveyance allowance monthly increased from ₹ 800 to ₹ 1600 which will help salaried tax payers.

The disadvantages to common man are increase in excise duty and service tax from 12.36% to 14.42% which will increase the price line. Additional 2% surcharge for the super-rich with income more than ₹ 1 crore.

Following is a list of what will be Cheaper

- Leather footwear priced above ₹ 1000 per pair
- Locally made mobile phones, LED/LCD panels, LED lights and LED Lamps
- Solar water heater
- Pacemakers, ambulance and ambulance services
- Computer tablets
- Agarbattis
- Microwave ovens
- Refrigerator compressors

SECURITY WITHIN AND WITHOUT

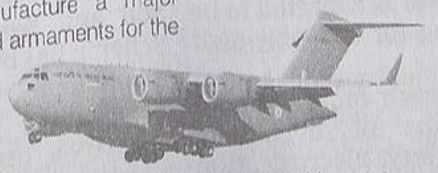
India needs to modernise its armed forces and bring its internal security apparatus up to date in order to protect its frontiers and the homeland

The Defence Factory

$80bn (₹496000 cr)
Amount that India's armed forces are estimated to spend on capital acquisitions in the next five years

$25 billion
(₹155000 cr)
The value of India's deal with French firm Dassault Aviation, for supply of 126 top-of-the-line Rafale fighter jets

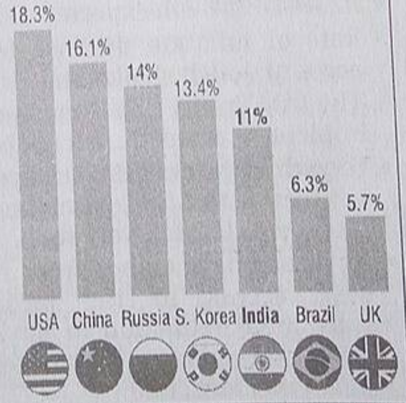
40 Number of ordnance factories that manufacture a major range of arms and armaments for the three forces



90 Number of licenced private sector companies that produce a wide range of defence items

The Global Arms Race

Military expenditure (as % of Central Budget)



- Peanut butter
- Packaged fruits and vegetables
- Visit to museum, zoo and national park

What's about to get Costlier

- Cigarettes and other tobacco products
- Completely built imported commercial vehicles
- Cement
- Aerated, flavoured drinks and packaged water
- Plastic bags and sacks
- Business and executive class air travel
- Visit to amusement and theme park
- Music concerts
- Liquor, chit fund and lottery

Good Governance

India is expected to spend ₹ 2.27 lakh crore ($37 billion) on major subsidies during the fiscal year starting April 1, according to budget proposals presented by Finance Minister Arun Jaitley on February 28,2015 . Out of ₹ 2.27 lakh crore, India is to provide ₹ 1.24 lakh crore ($20.11 billion) in food subsidies for the fiscal year 2015-16. But overall, subsidies on food, fertilizer and petroleum have been reduced by over 10% to ₹ 2.27 lakh crore for 2015-16, mainly due to a sharp cut in petroleum subsidies. The subsidy bill on food, petroleum and fertilizers is estimated at ₹ 227387.56 crore for 2015-16.

The direct transfer of benefits, started mostly in scholarship schemes, will be further expanded with a view to increasing the number of beneficiaries from the present 1 crore to 10.3 crore. Similarly, ₹ 6335 crore have so far been transferred directly, as LPG subsidy to 11.5 crore LPG consumers.

Perspective Points of the Budget

- Fiscal deficit target of 4.1% of GDP and fiscal deficit target of 3% will be achieved in three years rather than two years.
- Real GDP growth expected to accelerate to 7.4%.
- Rate of inflation declines to 5.1% and current account deficit shall remain less than 1.3%.
- The JAM Trinity (Jan Dhan, Aadhar and Mobile) to implement direct transfer of benefits.
- Growth in the next financial year is expected to be between 8 to 8.5% and aiming for a double-digit rate seems feasible very soon.
- At least one member from each family should have access to the means of livelihood, substantial reduction in poverty, electrification of the remaining 20000 villages including off-grid solar power by 2020.

THE BIG NIFRA PROBLEM

India would require large sums of money to build urban infrastructure over the next 20 years and nearly half of it will be needed for improving the road network.

The Rising Urban Population

300 million at present	**600** million projected by 2031

₹45 lakh crore

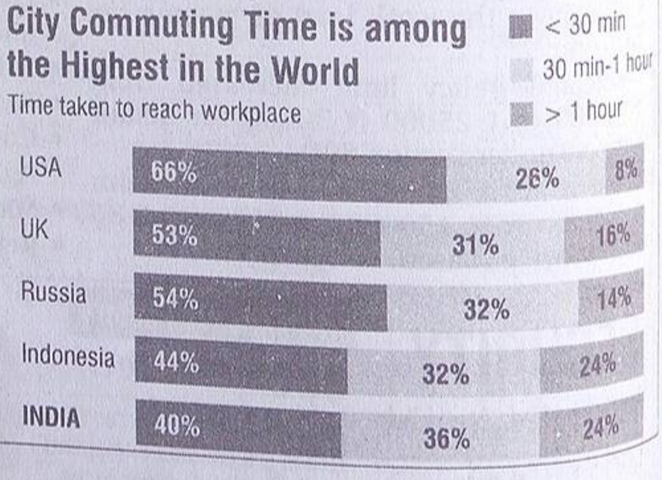
The amount of investment required to fund India's urban infrastructure projects in the next 20 years

₹17.3 lakh crore

The amount of investment required to fund building of urban roads.

₹8 lakh crore

Funds required for delivering urban services such as water, sewerage, waste management, etc.



City Commuting Time is among the Highest in the World

Time taken to reach workplace

AGRICULTURE

Two major factors critical to agricultural production: Soil and Water. An ambitious Soil Health Card Scheme has been launched to improve soil fertility on a sustainable basis. In order to improve soil health, government also propose to support Agiculture Ministry's organic farming scheme Paramparagat Krishi Vikas Yojana.

Government allocating ₹ 5300 crore to support micro-irrigation, watershed development and the Pradhan Mantri Krishi Sinchai Yojana. The Pradhan Mantri Gram Sinchai Yojana is aimed at irrigating the field of every farmer and improving water use efficiency to provide **Per Drop More Crop.**

To support the agriculture sector with the help of effective and hassle-free agriculture credit, with a special focus on small and marginal farmers, Govt. propose to allocate ₹ 25000 crore in 2015-16 to the corpus of Rural Infrastructure Development Fund (RIDF) set up in NABARD; ₹ 15000 crore for Long Term Rural Credit Fund; ₹ 45000 crore for Short Term Cooperative Rural Credit Refinance Fund; and ₹ 15000 crore for Short Term RRB Refinance Fund.

Other major points are :

- ₹ 25000 crore for Rural Infrastructure Development Bank.
- ₹ 5300 crore to support Micro Irrigation Programme.
- Farmers credit - target of 8.5 lakh crore during the year 2015-16.

Funding the Unfunded

There are some 5.77 crore small business units, mostly individual proprietorship, which run small manufacturing, trading or service businesses. 62% of these are owned by SCs/STs/OBCs. Propose to create a **Micro Units Development Refinance Agency (MUDRA) Bank**, with a corpus of ₹ 20000 crore, and credit guarantee corpus of ₹ 3000 crore. MUDRA Bank will refinance Micro-Finance Institutions through a Pradhan Mantri Mudra Yojana.

Process of establishing an electronic Trade Receivables Discounting System (TReDS) financing of trade receivables of MSMEs, from corporate and other buyers, through multiple financiers. The government proposes to utilise the vast Postal network with nearly 154000 points of presence spread across the villages of the country. Postal Department will make its proposed Payments Bank venture successful so that it contributes further to the Pradhan Mantri Jan Dhan Yojana.

From Jan Dhan to Jan Suraksha

The soon-to-be-launched Pradhan Mantri Suraksha Bima Yojana will cover accidental death risk of ₹ 2 lakh for a premium of just ₹ 12 per year. Similarly, we will also launch the **Atal Pension Yojana**, which will provide a defined pension, depending on the contribution, and its period. To encourage people to join this scheme, the government will contribute 50% of the beneficiaries' premium limited to ₹ 1000 each year, for five years, in the new accounts opened before December 31, 2015.

Third Social Security Scheme - is the Pradhan Mantri Jeevan Jyoti Bima Yojana which covers both natural and accidental death risk of ₹ 2 lakh. The premium will be ₹ 330 per year, or less than one rupee per day, for the age group 18-50.

There are unclaimed deposits of about ₹ 3000 crore in the PPF, and approximately ₹ 6000 crore in the EPF corpus. Government have proposed the creation of a **Senior Citizen Welfare Fund**, in the Finance Bill. The population of senior citizens in the country which is now approximately 10.5 crore, out of which over one crore are above the age of 80 years.

Infrastructure

Increased outlays on both the roads and the gross budgetary support to the railways, by ₹ 14031 crore, and ₹ 10050 crore respectively.

Establish a **National Investment and Infrastructure Fund** (NIIF), and find monies to ensure an annual flow of ₹ 20000 crore to it.

Establish, **Atal Innovation Mission** (AIM), will be an Innovation Promotion Platform involving academics, entrepreneurs, and researchers and draw upon national and international experiences to foster a culture of innovation, R&D and scientific research in India.

The government is establishing a mechanism to be known as **Self-Employment and Talent Utilisation** (SETU). SETU will be a Techno-Financial, Incubation and Facilitation Programme to support all aspects of start-up businesses, and other self-employment activities, particularly in technology-driven areas. ₹ 1000 crore initially in NITI Aayog for this purpose.

Launched the e-Biz Portal which integrates 14 regulatory permissions at one source.

Integrated Child Development Scheme (ICDS) by ₹ 1500 crore; Integrated Child Protection Scheme (ICPS) by ₹ 500 crore; and the Prdhan Mantri Krishi Sinchai Yojana by ₹ 3000 crore; and the initial inflow of ₹ 5000 crore into the NIIF.

Other major points :

- The Finance Minister proposed to create a Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of ₹ 20000 crore, and credit guarantee corpus of ₹ 3000 crore.

- Proposes to set up 5 new Ultra Mega Power Projects each of 4000 MWs in the plug-and-play mode.
- Proposed to set up a Public Debt Management Agency (PDMA) which will bring both India's external borrowings and domestic debt under one roof.
- Target of renewable energy capacity has been revised to 175000 MW till 2022.
- ₹ 1500 crore has been set apart for 'Deendayal Upadhyay Gramin Kaushal Yojana'.

Insurance and Banking

- Regarding the Employees Provident Fund (EPF), the Minister said the employees need to be provided two options, EPF or the New Pension Scheme (NPS).
- Merge the Forwards Markets Commission with SEBI to strengthen regulation of commodity forward markets and reduce wild speculation.
- Launch the Atal Pension Yojana, which will provide a defined pension.
- Soon-to-be-launched Pradhan Mantri Suraksha Bima Yojana, will cover accidental death risk of ₹ 2 lakh for a premium of just ₹ 12 per year.
- Proposal of competent direct tax system.
- To use 1.54 lakh post office network for the Jan Dhan .
- Proposed to introduce a Gold Monetisation Scheme.
- Developing Indian Gold Coin, which will carry the Ashok Chakra on its face.
- New law on black money to specifically deal with such money stashed away abroad.
- Launched 'Pradhan Mantri Jivan Jyoti Yojana'.
- Establishment of Bank Board Bureau for the banking administration of the government sector.

DRIVERS OF CHANGE

PM Modi's pet projects have received a big boost in the budget. 100% deduction has been announced for contributions to Swachh Bharat Kosh and Clean Ganga Fund.

SWACHH BHARAT	NAMAMI GANGE	JAN DHAN YOJANA	SMART CITIES	BETI BACHAO, BETI PADHAO
Launch Oct 2, 2014	Launch Jul 10, 2014	Launch Jul 10, 2014	Launch Jul 10, 2014	Launch Jan 23, 2015
Investment plan ₹ 2 lakh crore over 5 years to build 120 million toilets	**Investment plan** ₹ 2,037 crore set aside in Budget 2014; overall plan might cost ₹51000 crore over 18 years	**Investment plan** To provide universal access to banking facilities	**Investment plan** ₹ 7060 core sanctioned in last budget to develop 100 smart cities	**Investment plan** ₹ 200 core scheme for the next 25 years
Status check 50 lakh toilets built between 2014-15	**Status check** Panels set up, impact on river unclear.	**Status check** 99% of unbanked household covered, according to the government	**Status check** US to help develop Allahabad, Ajmer and Visakhapatnam	**Status check** Sensitisation programmes launched in Haryana, a State with one of the worst sex ratios, on Jan 22
Budget 2015-16 allocation ₹500 crore	**Budget 2015-16 allocation** ₹2100 crore	**Budget 2015-16 allocation** NA	**Budget 2015-16 allocation** ₹4022 crore	**Budget 2015-16 allocation** ₹97 crore
Target of building 6 crore toilets set				

DIGITAL INDIA
Launch
July 10, 2014

Investment plan ₹ 30000 crore to connect all 25 lakh gram panchayats with broadband connectivity by December, 2016

Status Check Cable laid in 5000 villages over 2014-15

Budget 2015-16 allocation ₹500 crore (for IT skills training)

Financial Markets

By setting up a Public Debt Management Agency (PDMA) which will bring both India's external borrowings and domestic debt under one roof. Propose to merge the Forwards Markets Commission with SEBI to strengthen regulation of commodity forward markets and reduce wild speculation. The Indian Financial Code (IFC) are currently being reviewed by the Justice Srikrishna Committee.

The Employees Provident Fund (EPF), the employee needs to be provided two options. Firstly, the employee may opt for EPF or the New Pension Scheme (NPS). Secondly, for employees below a certain threshold of monthly income, contribution to EPF should be optional, without affecting or reducing the employer's contribution. The 'Act East' policy of the government of India endeavours to cultivate extensive economic and strategic relations in South-East Asia.

Safe India

The government is committed to safety and security of women. In order to support programmes for women security, advocacy and awareness, government have decided to provide another ₹ 1000 crore to the **Nirbhaya Fund.**

Major points of welfare schemes

- GST and JAM Trinity (Jan Dhan Yojana, Aadhar and Mobile) to improve quality of life and to pass benefits to common man.
- Six crore toilets across the country under the Swachh Bharat Abhiyan.
- MUDRA bank will refinance micro finance organisations to encourage first generation SC/ST entrepreneurs.
- Housing for all by 2020. Upgradation 80000 secondary schools.
- DBT will be further be expanded from 1 crore to 10.3 crore.
- For the Atal Pension Yojana, government will contribute 50% of the premium limited to ₹ 1000 a year.
- New scheme for physical aids and assisted living devices for people aged over 80.
- Government to use ₹ 9000 crore unclaimed funds in PPF/EPF for Senior Citizens Fund.
- ₹ 5000 crore additional allocation for MGNREGA.
- Government to create universal social security system for all Indians.

Tourism

While India has 25 Cultural World Heritage Sites, government propose to provide resources to start work along these lines for the following Heritage Sites:

- Churches & Convents of Old Goa
- Hampi, Karnataka
- Elephanta Caves, Mumbai
- Kumbalgarh and other Hill Forts of Rajasthan
- Rani ki Vav, Patan, Gujarat
- Leh Palace, Ladakh, Jammu Kashmir
- Varanasi Temple town, Uttar Pradesh
- Jalianwala bagh, Amritsar, Punjab
- Qutub Shahi Tombs, Hyderabad, Telengana

After the success of Visas on Arrival issued to travellers of 43 countries, government propose to increase the countries covered to 150 in stages.

Education and Health

- AIIMS in Jammu and Kashmir, Punjab, Tamil Nadu, Himachal Pradesh, Bihar and Assam.
- IIT in Karnataka; Indian Institute of Mines in Dhanbad to be upgraded to IIT. PG Institute of Horticulture in Amritsar.
- Kerala to have University of Disability Studies
- Centre of film production, animation and gaming to come up in Arunachal Pradesh.
- IIM for Jammu and Kashmir and Andhra Pradesh.

Major Points

Former Finance Minister Morarji Desai presented the budget ten times, the most by any.

- ☐ The first Union budget of independent India was presented by RK Shanmukham Chetty on November 26, 1947.
- ☐ Indira Gandhi, the then Prime Minister of India, took over the Ministry of Finance to become the only woman to hold the post of the Finance Minister.
- ☐ Pranab Mukherjee, the first Rajya Sabha member to hold the Finance portfolio, presented the annual budgets for 1982-83, 1983-84 and 1984-85.
- ☐ Until the year 2000, the Union Budget was announced at 5:00 pm on the last working day of the month of February.
- ☐ It was Yashwant Sinha, the then Finance Minister of India in the NDA government (led by BJP) of Atal Bihari Vajpayee, who changed the ritual by announcing the 2001 Union Budget at 11 am.

Rail Budget *Move to Making India*

On the Big Money Track

₹ 8.5 lakh crore
Investments envisaged over the next five years. Multiple sources of funding including Multilateral Development Banks and Pension Funds will be tapped

88.5 %
Operating Ratio (paisa spent against every rupee earned) pegged at-best in nine years

750 km
of civil contracts and 1300 km of systems contracts in the Eastern and Western Dedicated Freight Corridors to be awarded in 2015-16. Durgawati Sasaram, a 55 km section of Eastern DFC, proposed to be completed in the current year.

Introduction of modern train sets for inter city travel. The first set of these state-of-the-art trains – which provide for superior riding experience and about 20% saving in journey time – will run on existing tracks within two years.

Five year Corporate Safety Plan to be finalised by June 2015, indicating quantifiable targets

Modernisation Gains Steam

400 Wi-Fi facility to be provided in station

2000
Railway display board to be set up in over stations to provide information on train arrival/departure, reservations, etc.

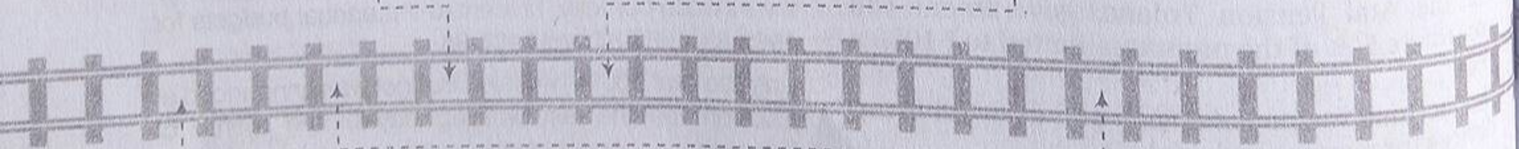
17000
Toilets to be converted to bio-toilets. New toilets to come up in 650 stations.

Operation 5 Minutes Passenger travelling unreserved can purchase a ticket within 5 min through automatic ticket vending machines at stations. The modalities of the scheme is yet to be worked out

Have a complaint while travelling ?
A pan india 24x7 helpline number (138) is being set up to address passenger grievance. Passengers can call up while travelling on the train which would be re-directed to staff on the train for redressal.

9300 km
The total length China's 1580 bullet trains cover each

63974 km
The Indian Railways also takes pride in its staggering number : 7083 stations, 131205 bridges, 9000 locomotives, 51030 passenger coaches, 219931 freight



10000 km
new tracks added in the last 65 years. India's rail network today

78000 km
the length China's network grew in the same time; it was 91000 km in

54000 km
India's rail network in 1947

₹16000 crore
is the annual diesel bill of the Railways; it pays an annual

42000 km
The length of Indian railways optical fibre

Railway Budget also referred as Rail Budget is the Annual Financial Statement of the state Indian Railways, which handles rail transport in India. It is presented every year by the Minister of Railways, representing the Ministry of Railways, in the parliament. Union Railway Minister Suresh Prabhu on February 26, 2015 presented his maiden Rail Budget in Lok Sabha. *Here are the main points from Rail Budget 2015-16 :*

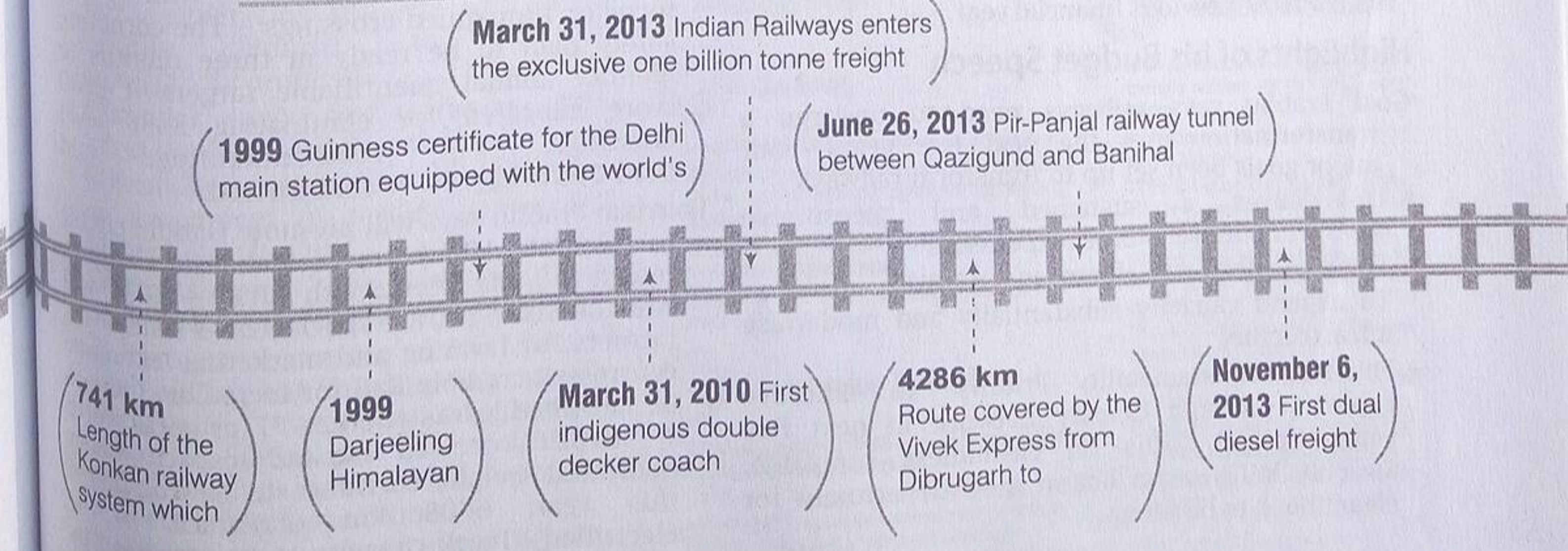
Financial Performance 2014-15

- Net reduction in Gross Traffic Receipts by ₹ 917 crore compared to the budget estimates of ₹ 160165 crore.
- Growth in Ordinary Working Expenses (OWE) scaled down to 11.7% as against Budget Estimates (BE) of 15.5% year-on-year. Taking into account the likely savings accruing from drop in prices of High Speed Diesel (HSD) for traction partly offset by higher requirements under certain heads for maintenance, safety and cleanliness activities, the budgeted OWE of ₹ 112649 crore decreased in the RE 2014-15 to ₹ 108970 crore i.e. by ₹ 3679 crore.
- Appropriation to the Pension Fund has been increased to ₹ 29540 crore in RE. Internal resource generation also improved and accordingly the appropriation to DRF has been scaled up to ₹ 7975 crore in RE from the BE 2014-15 provision of ₹ 7050 crore. After taking into account the above, "Excess" of receipts over expenditure stands at ₹ 7278 crore in RE 2014-15 reflecting better financial management. Plan size for 2014-15 increased from ₹ 65445 crore in the BE to ₹ 65798 crore in the Revised Estimates (RE) i.e. by ₹ 353 crore with higher provisions under internal resource component and market borrowings for rolling stock requirement.

Budget Estimates for 2015-16

- The intention is to capture increased revenues and ensure appropriate investments so as to decongest the system and enhance line-capacity. Passenger earnings growth pegged at 16.7% and target budgeted at ₹ 50175 crore.
- Freight traffic is pegged at an all time high incremental traffic of 85 million tonnes, anticipating a healthier growth in the core sector of economy; Goods earnings proposed at ₹ 121423 crore which includes rationalisation of rates, commodity classification and distance slabs.
- Other coaching and sundries are projected at ₹ 4612 crore and ₹ 7318 crore.
- Gross Traffic Receipts estimated at ₹ 183578 crore, a growth of 15.3%.
- Ordinary Working Expenses proposed to grow at 9.6% over RE 2014-15. Traction fuel bill anticipated to shrink further.
- Higher provisions made for safety maintenance and cleanliness. Lease charges, interest component of the current and previous market borrowings, at a growth of 21%.

Appropriation to Pension Fund proposed at ₹ 35260 crore and appropriation to DRF at ₹ 8100 crore. Appropriation of ₹ 7616 crore proposed to be made to Capital Fund for payment of principal component of lease charges to IRFC


March 31, 2013 Indian Railways enters the exclusive one billion tonne freight
1999 Guinness certificate for the Delhi main station equipped with the world's
June 26, 2013 Pir-Panjal railway tunnel between Qazigund and Banihal
741 km Length of the Konkan railway system which
1999 Darjeeling Himalayan
March 31, 2010 First indigenous double decker coach
4286 km Route covered by the Vivek Express from Dibrugarh to
November 6, 2013 First dual diesel freight

Plan Outlay 2015-16

- Gross Budgetary Support of ₹ 40000 crore for the Railways annual Plan. ₹1 645.60 crore has also been provided as Railway's share of diesel cess from the Central Road Fund.
- Market borrowing under EBR projected at ₹ 17655 crore, an increase of about 46.5%. Balance Plan outlay includes ₹ 17793 crore from Internal Resources and ₹ 5781 crore from PPP.
- Significantly, we are allocating large amounts towards Doubling, Traffic Facilities, Electrification and Passenger Amenities.
- Given the huge shelf of project and ensuring proper funds flow for the same with a view to completing them on target, a new financing approach to expand EBR has been projected.
- This EBR, presently named EBR (Institutional Finance) would be based on institutional investments in railway projects through Railway/ PSUs.
- This element is projected at ₹ 17136 crore and is aimed at accelerating completion of capacity augmentation projects. Works proposed to be financed through this mode are listed in the Budget documents.
- Plan Outlay is ₹ 100011 crore, an increase of 52% over RE 2014-15. It is anticipated that the Plan size will get higher once resources from institutional bodies are formalised during the course of the ensuing financial year.
- The railways aims to improve the operating ratio to 88.5% during the next fiscal, the best in the last nine years, Railway Minister Suresh Prabhu said on February 26, 2015.
- The operating ratio, a key measure of efficiency, was at 91.8% in 2014-15 after touching a high of 93.6% in the previous financial year.

Highlights of his Budget Speech

Goal Prabhu says railways need to undergo a transformation over the next five years—Four major goals been set up to transform railways :

- To deliver a sustained and measurable improvement in customer experience
- To make railways a safer means of travel
- To expand capacity substantially and modernise infrastructure
- Financial sustainability—Priority to improve capacity on high density network in next five years—Special focus on cleanliness campaign; Swachh Rail Swachh Bharat, new department for cleanliness, to be set up.

Fares No increase in passenger fares -- Freight rates for urea raised by 10%, iron and steel by 0.8%, kerosene and cooking gas by 0.8%, coal by 6.3% and cement by 2.7%.

Finances Plan budget goes up 52% to ₹ 1.1 trillion for FY16 —Prabhu envisages investment of ₹ 8.5 trillion for railways in the next five years—Railways to raise funds from pension, institutional and multilateral agencies—To set up an infrastructure fund; holding company to raise long-term debt —MPs requested to use part of their MPLAD funds to improve passenger amenities.

Passenger Amenities Passengers can now book tickets 120 days in advance instead of 60 days earlier—Railways aims to move towards paperless ticketing—'Operation 5 minutes' being launched so that passengers can buy railway tickets within five minutes—SMS updates to be sent to inform passengers about any change in time of arrival and departure of trains—Open wi-fi to be available at 400 railway stations —Mobile charging units to be installed in general class coaches—CCTVs to be installed in select trains and suburban trains for women safety—Passengers will be able to order food through IRCTC website while booking tickets—More water-vending machines to be set up at stations for cleaner water at lower prices—138 to be a nationwide 24 × 7 helpline number for railway-related queries; 182 to be a toll-free number for security-related issues—On-board entertainment in Shatabdis to be introduced—NID approached to design user-friendly ladders for climbing upper berths.

Safety 5-year corporate safety plan to be introduced to reduce accidents, with special focus on unmanned crossings -- The corporate safety plan to be ready in three months to identify annual quantifiable targets—₹ 6750 crore allocated for eliminating 3438 level crossings; 970 road-underbridge and road-overbridge to be constructed.

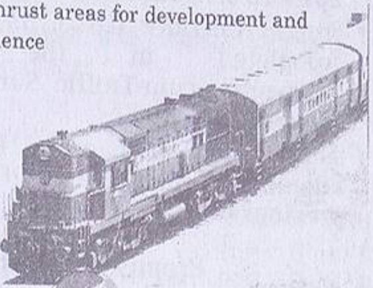
Tourism Prabhu says will promote Gandhi circuit to celebrate 100 years of Mahatma Gandhi's return to India from South Africa—IRCTC will work on Kisan Yatra, a special travel scheme for farmers for farming and marketing technique centres—Incredible Rail for Incredible India to be launched.**Infrastructure** 77 projects worth ₹ 96182 crore to expand capacity—Four dedicated freight corridors to be completed this year; 6608 km of track to be electrified—Track capacity to be increased by 10% to 1.38 lakh km—Speed on nine corridors to be increased from 110-130 km/h to 160-200 km/h— Wagon-making scheme to be reviewed to make it easier for private investment—Prabhu says railways stations need to be transformed, for which investments are needed—Station redevelopment policy to be revamped and processes simplified by inviting open bids—Development of 10 satellite railway terminals in major cities with twin purpose of decongesting the city and providing service to suburban passengers—Joint ventures to be set up with states for focused project development, resource mobilization, land acquisition, project implementation and monitoring of critical rail projects—PPP cell to be revamped to make it more result-oriented—All railways projects to be moved to EPC model—Transport Logistics Corporation of India (Transloc) to be set up for developing common user facilities with handling and value-added services to provide end-to-end logistics solution at select railway terminals through public-private partnerships. Prabhu says feasibility report of high-speed train between Mumbai and Ahmedabad expected by mid-2015—North-East connectivity to be improved, J&K connectivity also in focus.

Proposals of this Budget

- De-congesting networks with basket of traffic-generating projects will be the priority. Priority to last-mile connectivity projects.
- Fast-track sanctioned works on 7000 km of double/third/fourth lines.
- Commissioning 1200 km in 2015-16 at an investment of ₹ 8686 crore, 84% higher Year-On-Year.
- Commissioning 800 km of gauge conversion targeted in current fiscal.
- 77 projects covering 9400 km of doubling/tripling/quadrupling works along with electrification, covering almost all States, at a cost of ₹ 96182 crore, which is over 2700% higher in terms of amount sanctioned.
- Traffic facility work is a top priority with an outlay of ₹ 2374 crore. Award of

Passenger-Friendly Signals

Railway Budget spells out 11 major thrust areas for development and measures to enhance customer experience



1 Cleanliness

- Make Swachh Rail force behind Swachh Bharat
- Create new department for cleanliness
- Take up integrated cleaning by engaging professional agencies and training staff
- Set up waste to energy conversion plants
- Build new toilets covering 650 additional stations
- Replace existing toilets with 17388 bio-toilets
- Bring out design for vacuum toilets in 6 months
- Extend built-in dustbins to non-AC coaches

2 Bed Linen

- NIFT to design online booking of disposable bed rolls ; mechanised laundries to be increased

3 Helpline

- 24x7 helpline number 138 toll-free number 182 for security related complaints
- Mobile application to redress Railway-related complaints being developed

4 Ticketing

- Hot buttons
- Concessional e-tickets for differently-abled travellers
- Unreserved tickets on smartphones
- Automatics ticket vending machines with smart cards and currency options
- Integrated ticketing system on the linees of rail-cum-road tickets

5 Catering

- e-catering in 108 trains introduced in January
- Setting up base kitchens in specified divisions to be run by reputed agencies for serving quality food
- Ordering food through IRCTC website at the time of booking of tickets
- Expansion of water vending machines in stations

6 Leveraging Technology

- Extending facility of SMS on mobiles as a valid proof of travel for PRS tickets
- 'SMS Alert' service to inform passengers in advance of the updated arrival/departure time of trains at starting or destinaion stations.

7 Surveillance

- Surveillance cameras provided on a pilot basis in select mainline coaches and women's compartments of suburban trains without intruding into privacy

8 Entertainment

- Project for introducing on-board entertainment on select Shatabdi trains on license fee basis launched

9 Station Facilities

- Wi-fi to be provided at B category stations
- Self-operated lockers to be made available at stations

10 Train Capacity

- Capacity in identified trains be augmented to run with 26 coaches
- More general class coaches be added in identified trains

11 Comfortable Travel

- NID approached to design user-friendly ladders for climbing upper berths
- Increase quota of lower berths for senior citizens
- TTEs be instructed to help senior citizens, pregnant women and differently-abled persons
- Middle bay of coaches to be reserved for women and senior citizens
- Provision of ₹120 crore for lifts and escalator (76% higher)
- Newly manufactured coaches to be Braille enabled
- Building wider entrances for differently-abled passengers
- Allocation for passenger amenities up by 67%

750 km of civil contracts and 1300 km of system contracts in 2015-16 on Dedicated.

- Freight Corridor (DFC); 55 km section of Eastern DFC to be completed in the current year. Preliminary Engineering-cum-Traffic Survey (PETS) for four other DFCs in progress.
- Acceleration of pace of Railway electrification: 6608 route kilometers sanctioned for 2015-16, an increase of 1330% over the previous year.

Proposed Investment Plan (2015-19)

Item	Amount (₹ in crore)
Network Decongestion (including DFC, Electrification, Doubling including electrification and traffic facilities)	199320
Network Expansion (including electrification)	193000
National Projects (North Eastern and Kashmir connectivity projects)	39000
Safety (Track renewal, bridge works, ROB, RUB and Signalling and Telecom)	127000
Information Technology/Research	5000
Rolling Stock (Locomotives, coaches, wagons-production & maintencance)	102000
Passenger Amenities	12500
High Speed Rail & Elevated corridor	65000
Station redevelopment and logistic parks	100000
Others	13200
Total	**856020**

Plan Budget of Railways up by 52%

The Union Railway Minister Suresh Prabhakar Prabhu has announced that the size of the Plan Budget has gone up by 52% from ₹65798 crore in 2014-15 to ₹100011 crore in 2015-16. Support from the Central government constitutes 41.6% of the total Plan Budget and Internal generation 17.8%. Introducing the Railway Budget for 2015-16 in Parliament today he said that in view of the fact that it would be a challenging task to initiate the mobilization of extra-budgetary resources, it is proposed to set up a Financing Cell in the Railway Board, which would seek the benefit of advice from experts in this field.

Nine Major Thrust Areas in the Railway

- Indian Railways to become prime mover of economy once again
- Resource mobilisation for higher investments
- Decongestion of heavy haul routes and speeding up of trains: emphasis on gauge conversion, doubling, tripling and electrification
- Project delivery
- Passenger Amenities
- Safety
- Transparency & System Improvement
- Railways to continue to be the preferred mode of transport for the masses
- Sustainability

Provide Budgetary Support by Union Government

The Railway Minister has said that the Ministry of Finance has communicated a Gross Budgetary Support of ₹ 40000 crore for the Railway's annual Plan. Presenting the

MISSION & VISION

SURESH PRABHU SETS AGENDA TO PUT THE RAILWAYS BACK ON TRACK

5 DRIVERS OF EXECUTION STRATEGY

1 Adopting medium term perspective address short-term priorities without glossing over long-term, medium-term vision

2 Building partnerships Work closely with States, PSUs, multilateral, bilateral organisations, other governments and private sector

3 Leveraging additional resources Bring in investment of ₹8.5 lakh crore over next 5 years

4 Revamping management practices Operating ratio for 2015-16 set at 88.5% against 91.8% in 2014-15 and 93.6% in 2013-14

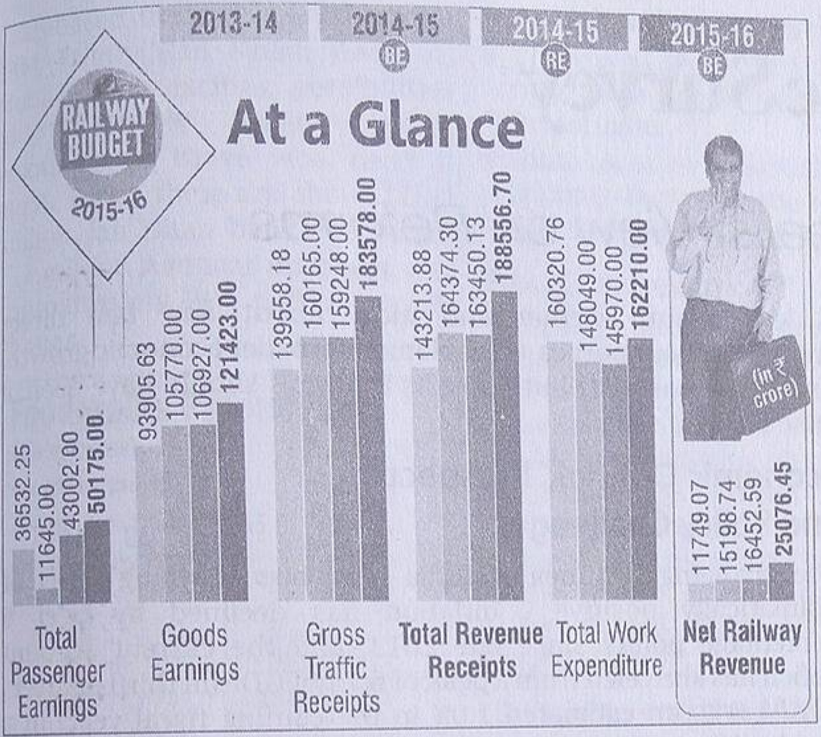
5 Setting standards for governance Ensure Transparency in day-to-day activities

3 STEPS TO EXPAND RAIL CAPACITY

Increase Daily Passenger capacity from 21 to 30 million

Increase track length by 20% to 138000 km

Increase annual freight capacity from 1 billion to 1.5 billion tonnes



Railway Budget 2015-16 in Parliament today Railway Minister Suresh Prabhakar Prabhu said ₹ 1645.60 crore has also been provided as Railway's share of diesel cess from the Central Road Fund. He said Market borrowing under EBR is projected at ₹17655 crore, an increase of about 46.5% (₹ 5609 crore) over RE 2014-15.

Balance Plan outlay includes ₹ 17793 crore from Internal Resources and ₹ 5781 crore from PPP. The Minister informed the Parliament that large amounts have been allocated towards Doubling, Traffic Facilities, Electrification and Passenger Amenities. The Minister said Railways has proposed a Plan outlay of ₹ 100011 crore, an increase of 52% over RE 2014-15. Prabhu said it is anticipated that the Plan size will get higher once resources from institutional bodies are formalised during the course of the ensuing financial year.

Key Points of Rail Budget 2015-16

- Suresh Prabhu said we must restore the strength of Bharatiya Railway as the backbone of India.
- Railways to go through transformation in five years; to increase track capacity by 10% to 1.38 lakh km. ₹ 8.5 lakh crore will be invested in Railways in next 5 years.
- Railway helpline number 138 will become operational for 24×7.
- Disposable linen on payment to be available at all stations.
- Toll free number 182 created for security related complaints.
- Introduction of 'Operation 5-minute' to ensure ticketless passenger get regular ticket within five minute of entering station.
- SMS alert service to be introduced on train arrival anddeparture; CCTVs to be introduced in selective trains and suburban trains for women safety.
- More general class coaches to be added in identified trains; more AC EMU services for Mumbai suburban section.
- Open wi-fi to be available at 400 railway stations; proposal to revamp the station re-development scheme.
- Projects worth ₹ 96182 crore to expand capacity of 9420 km rail lines.
- Tickets can now be booked 120 days ahead of travel date, instead of 60 days now, to tackle tout menace.
- Four dedicated freight corridors to be completed this year; 6608 km of track to be electrified.
- Wagon-making scheme to be reviewed to make it easier for private investment; Speed on nine corridors to be increased from 110-130 to 160-200 km/h.
- Feasibility report of high speed train between Mumbai and Ahmedabad expected by mid-2015.
- Preparing 5-year corporate safety plan to be ready in 3 months to identify annual quantifiable targets ₹ 6750 crore allocated for eliminating 3438 level crossings; 970 road-underbridge and road-overbridge to be constructed.
- Plan size raised by 52% to ₹ 111000 crore.
- Regulatory mechanism to be set up for deciding on tariff and disputes: Project worth ₹ 2500 crore using BOT annuity route to be launched.

Economic Survey

Realist View on Reforms

The Economic Survey is a collective effort, of numerous contributors in government and outside, as well as analysts abroad, but above all, of the dedicated staff of the Economic Division of the Department of Economic Affairs. To all of them is owed gratitude and thanks for hard work done, and done well and cheerily, meeting stiff deadlines and contending with the vicissitudes of rules and personalities. All Economic Surveys bear the imprint of the incumbent Chief Economic Adviser. And so it is with this one. But the desire for change must be balanced by the imperative of maintaining continuity, in order to be respectful of, and gain from, traditions that have survived the tests of time, whim, fashion, and politics.

John Maynard Keynes famously said that it is necessary to distinguish the important from the urgent. At this juncture, with a new government in power and about to present its first full budget, and given the constraints of time and resources, this Survey has taken Keynes' advice to heart. The Survey favours the present, erring on the side of being expansive in scope even if the consequence has been to privilege cursory examination over in-depth analysis.

The broad themes of the Survey are *creating opportunity and reducing vulnerability*. Growth is the prerequisite for achieving many economic and indeed other objectives. Maximising the benefits of growth will, of course, require complementary public actions, but without growth, possibilities across the income spectrum shrink.

Increasingly, the debate on reducing poverty and vulnerability more generally is less about *whether* and more about *how best* direct government support can complement broader economic growth. Growth versus distribution is, as it always should have been, a false choice.

Economic Outlook, Prospects, and Policy Challenges

The changing fortunes of India have been nothing short of dramatically positive . Inflation has declined by over 6 percentage points since late 2013, and the current account deficit has shriveled from a peak of 6.7% of GDP (in third quarter, 2012-13) to an estimated 1.0% in the coming fiscal year. In a nearly 12-quarter phase of deceleration, economic growth averaged 6.7% but since 2013-14 has been growing at 7.2% on average, the later based on the new growth estimates. India's overall revenue-to-GDP ratio (for the general government) for 2014 is estimated at 19.5% by the IMF.

Consumer Price Inflation(CPI) which is likely to print at 6.5% for 2014-15 is likely to decline further. Our estimate for 2015-16 is for CPI inflation to be in 5.0-5.5% range and for the GDP deflator to be in the 2.8-3.0% range.

Declining international prices as well as moderating inflation have meant that gold imports averaged $ 1.3 billion in December, 2014 and $ 1.6 billion in January, 2015 compared with $ 4.2 billion in October, 2014 and $ 5.6 billion in November, 2014.

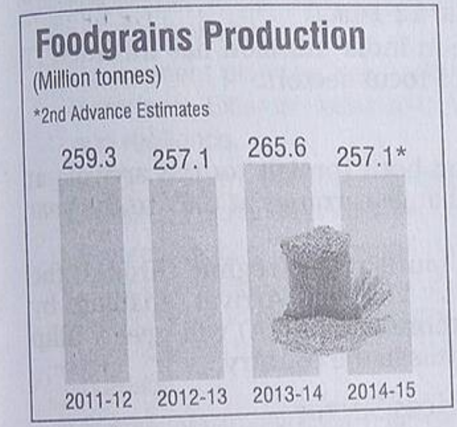
Financial flows in 2014-15 are likely to be in excess of $ 55 billion, leading to a sizeable accretion to reserves by about $ 26 billion, to about $ 340 billion.

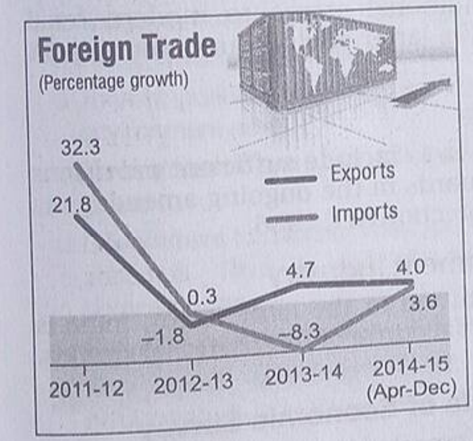
In agriculture the first Advance Estimate of Kharif crops (July-September 2014) indicates lower production compared to the last year.

Crop Yield Comparison

Crop	India Highest Yield (State)	World Highest Yield
Paddy	Punjab - 3952	China - 6661
Wheat	Punjab - 5017	UK - 7360
Maize	Tamil Nadu - 5372	USA - 8858
Chickpeas	Andhra Pradesh - 1439	Ethiopia - 1663
Cotton	Punjab - 750	Australia - 1920
Rapeseed/Mustard Seed	Gujarat - 1723	UK - 3588

Cash-based transfers based on the JAM Trinity (Jan Dhan, Aadhaar, Mobile) offer exciting possibilities to effectively target public resources to those who need it most. Today there are about 125.5 million Jan Dhan bank accounts, 757 million Aadhaar numbers, and approximately 904 million mobile phones.





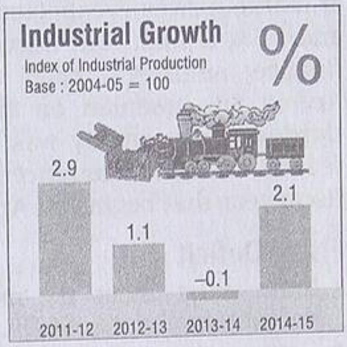
Central Statistics Office (CSO)

- Notwithstanding the new estimates, the balance of evidence suggests that India is a recovering, but snot yet a surging economy.
- Going forward inflation is likely to remain in the 5-5.5% range, creating space for easing of monetary conditions.
- Using the new estimate for 2014-15 as the base, GDP growth at constant market prices is expected to accelerate to between 8.1 and 8.5% in 2015-16.

- Private investment must be the engine of long-run growth.
- There is a case for reviving targeted public investment as an engine of growth in the short run to complement and crowd-in private investment
- India faces an export challenge, reflected in the fact that the share of manufacturing and services exports in GDP has stagnated in the last five years.

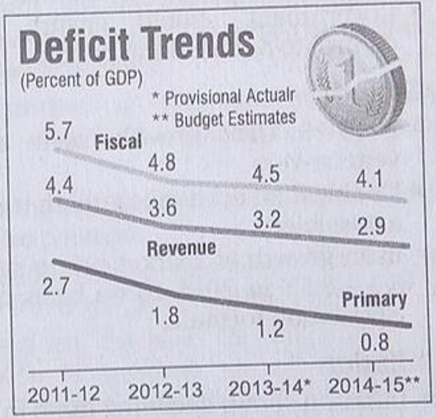
Fiscal Framework

- India must adhere to the medium-term fiscal deficit target of 3% of GDP.
- India must move toward the golden rule of eliminating revenue deficits.
- Expenditure control with growth recovery and GST will ensure that medium-term targets are met.
- The quality of expenditure needs to be shifted from consumption to investment.



Subsidies and the JAM Solution

- The direct fiscal cost of all the subsidies is roughly ₹ 378000 crore or 4.2% of 2011-12 GDP.
- 41% of PDS kerosene is lost as leakage and only 46% of the remaining 59% is consumed by poor.
- The JAM Trinity (Jan DhanYojana, Aadhaar and Mobile) can eliminate leakages and distortion.



The Investment Challenge

- The stock of stalled projects stands at about 7% of GDP, accounted for mostly by the private sector.
- Manufacturing and infrastructure account for most of the stalled projects.
- This has weakened the balance sheets of the corporate sector and public sector banks.
- Despite this, the stock market valuations of companies with stalled projects are quite robust, which is a puzzle.
- Expectation that the private sector will drive investment needs to be moderated.
- Public investment may need to step in to ramp up capital formation.

The Banking Challenge

- Indian banking balance sheet is suffering from 'double financial repression'.
- Going forward, capital markets and bond-financing need to be given a boost.

- Private sector banks did not partake in the biggest private-sector-fuelled growth episode in Indian history during 2005-2012.

Major Part of Economic Survey 2014-15

India's economy will grow at a rate of more than 8% in the 2015-16 fiscal year. Economic growth at market prices is expected to be between 8.1 and 8.5%, it said. The survey prepared by the finance ministry's chief economic adviser Arvind Subramanian on the state of Asia's third-largest economy was released ahead of federal budget announcement for 2015-16 fiscal year that begins on April 1.

Fiscal Deficit

- India must meet its medium-term fiscal deficit target of 3% of GDP.
- Government will adhere to fiscal deficit target of 4.1% of GDP in 2014-15.
- Government should ensure expenditure control to reduce fiscal deficit.

Growth

- 2015-16 GDP growth seen at over 8% year-by-year.
- Double digit economic growth trajectory now a possibility.
- Econ growth at market prices seen between 8.1 - 8.5% in 2015-16 on basis of new GDP calculation formula.

Inflation

- Inflation shows declining trend in 2014-15.
- Inflation likely to be below central bank target by 0.5 - 1% point.
- Lower inflation opens up space for more monetary policy easing.
- Government and central bank need to conclude monetary framework pact to consolidate gains in inflation control. CPI inflation in 2015-16 is likely to range between 5 - 5.5%.

Reforms

- There is scope for big bang reforms now.
- India can increase public investments and still hit its borrowing targets.

Fiscal Consolidation

- Government remains committed to fiscal consolidation.
- India can balance short-term imperative of boosting public investment to revitalise growth with fiscal discipline.
- Outlook for external financing is correspondingly favourable.

IT & ITeS Sector

- IT and ITeS sector including Business Process Management (BPM), continues to be one of the largest employers in the country.
- Software products and services revenues for 2015-16 is projected to grow at 12-14%.
- Government's "Make in India" mission has included IT and BPM among the 25 focus sectors.

Tourism

- Increase in growth on both foreign tourist arrivals at 7.1% and foreign exchange earnings at 6.6% in the year 2014.
- Easing of the Indian tourism visa regime through the expansion of Tourist Visa on Arrival enabled by Electronic Travel Authorisation (ETA) will give a fillip to foreign tourist arrivals in the country.

Trade and Repair Services Sector

- Migration from traditional stores to modern retail continues, though the latter still accounts for only 8% of the total market.

E-Commerce Market

- Government proposes to include sufficient provisions for consumer safeguards in the ongoing amendments to the Consumer Protection Act, 1986.

Media And Entertainment Industry

- With 100% FDI permitted in the Film Sector, India is emerging as the new favourite of international studios.

Key Highlights of Economic Survey

☐ Growth rate of over 8% expected for the coming year.
☐ Government remains committed to fiscal consolidation.
☐ Double digit economic growth trajectory a possibility.
☐ Outlook for domestic macro-economic scenario optimistic.
☐ FY 16 GDP growth seen at 8.5%. Inflation shows a declining trend during the year 2014-15 (April-December)
☐ Growth in 2014-15 largely driven by domestic demand
☐ Price subsidies do not appear to have had a transformative effect on the living standards of the poor.
☐ External Sector is returning to the path of strength and resilience.
☐ India must meet its fiscal deficit target. Fiscal deficit of 4.1% possible.

- Need subsidy overhaul to meet fiscal deficit target.
- 14th Finance Commission will enhance fiscal federalism in India.
- Manufacturing and services sector equally important for growth of economy. Inflation down by 6% since 2013. FY 15 GDP growth at 7.4%.
- Monetary Policy should not be based on inflation alone.
- Land Acquisition a zero sum game, make it win-win for all.
- Despite GDP's positive turn, non-food credit growth remains below par. Food Ministry not in favour of lowering food security coverage.
- Government planning new revamped interest subsidy plan for farmers. External Sector is returning to the path of strength and resilience.
- Major Reform Initiatives Undertaken by government in Banking, Insurance and Financial Sector.
- Greater public investment in Railways would boost competitiveness of Indian manufacturing substantially. Services sector negotiations at WTO hold special significance for India in removing many market access barriers.
- Public investment to be a key growth engine in short run for Railways, but not a substitute for private investment.
- Fiscal, revenue & primary deficits show a declining trend.
- There's political mandate for reform & benign external environment now.
- Forex reserves going up. Services sector clocks double digit growth.
- Government to discontinue support to 8 centrally sponsored schemes. Rise in non-oil, non-gold imports to hurt competitiveness.
- Subdued global demand is concern but worst clearly behind.
- May need spending curbs if revenues fall short. Hyper-growth in tech start ups, services sector.
- Services sector negotiations at WTO crucial, seek removing market access barriers and domestic regulations.
- Rural penetration of IT services to drive 'Make in India' mission.
- 14th Finance Commission recommendations are progressive.
- Rationalisation of subsidies, better targeting of beneficiaries will release funds for public investment in agriculture.
- Converting all subsidies into direct benefit transfers is the laudable goal of government policy. India's action-oriented policies to bring rapid development to people while addressing climate change.
- Post Office can be linked with AADHAR based benefits transfer architecture to allow linkage to AADHAR accounts.
- Create National Common Market in Agricultural Commodities.
- Medium-term fiscal strategy is based on fundamental principles of fiscal policy & the need to maintain fiscal credibility.
- Overall standard of education below global standards, considerable scope to up training system.
- Manufacturing and infrastructure account for most of the stalled projects.
- Carbon taxation along with India's solar power programme to boost government's green plan.
- In the short run, the need for accelerated fiscal consolidation is lessened by the dramatically changed macro-circumstances and the less-than-optimal nature of pro-cyclical policy.
- A likely surfeit, rather than scarcity, of foreign capital will complicate exchange rate management.

Financial/Banking Committees/Commissions Constituted in Independent India

Committee/Commission	Constituted	Chairperson	Objective/Aim
Khanna Committee	2012	Parul Khanna	Non-performing assets
Kanath Committee	2012	R J kanath	Education loan
J Reddy Committee	2012	J Reddy	Insurance reforms
Damodaran Committee	2012	M Damodarar	Banking customer service
Usha Thorat Committee	2011	UshaThorat	Financial inclusion
Vijay kelkar Committee-III	2011	Vijay Kelkar	To Analyse Economy According to FRBM Act.
Ranga Rajan Committee	2008	Dr C Ranga Rajan	Financial inclusion
Kelkar Committee-II	2002	V Kelkar	Related to direct and indirect tax
YB Reddy Committee	2001	YB Reddy	Revaluation and re-examination of taxation
SN Verma Committee	1999	S N Verma	Reorganisation of commercial banks
Verma Committee	1999	M S Verma	Working Groups on Restructuring Weak Public Sector Banks
M Narshingham Committee	1998	M Narshingham	Banking reform
Tarapore Committee	1997	S S Tarapore	For capital account convertibility
RV Gupta Committee	1997	R V Gupta	Related to Agricultural Credit
Padmanabhan Committee	1995	S Padmanabhan	Onsite supervision functions of banks
Malhotra Committee	1994	R N Malhotra	Reforms in insurance sector
Khanna Committee	1994	Parul Khanna	Establishment of IRD A and Insurances reform
Janki Raman Committee	1993	Janki Ramanan	Securities transaction of banks and financial institutions
Ghosh Committee	1992	A Ghosh	Frauds and mal practices in banks
Raja Chelaiyaa Committee	1992	Raja Jesudos Chelaiyaa	Taxation reform
AC Shah Committee	1992	AC Shah	Related to GIC and deposit
Narshimhan Committee I	1991	M Narshimhan	To examine the base and working method of financial institutions
Goiporia Committee	1990	M N Goiporia	Related to customer services in bank
Vaghul Committee	1986	N Vaghul	Money market
Pandarkar Committee	1983	Vijay Pandarkar	Related to periodical test by RBI
S. Chakraverty Committee	1982	S Chakraverty	To analyse money policy in banking sector
Puri Committee	1982	Aditya Puri	To bring uniformity in loan application
Shiv Raman Committee	1981	B Shiv Raman	For establishment and development of NABARD
RK Talwar Committee	1979	R K Talwar	For customer service
K Madhav Dash Committee	1978	K Madhav Das	Urban co-operative bank
James Raj Committee	1978	James S Raj	Related to way and policy of working of public sector banks
NL Dantvala Committee	1978	NL Dantvala	Behaviour and functions of RRB
CE Kanath Committee	1976	CE Kanath	Multi institutional investment in agricultural financial sector
M Narshimham Committee	1975	M Narshimhan	Establishment of regional rural bank
Varshney Committee	1975	Pravin Varshney	To examine loan above 2 lakh
Chatalier Committee	1970	Chatalier	To provide financial assistance to small industrial institution.
Nariman Committee	1969	FKF Nariman	Programme related to expansion of branches of banks
Godgit Committee	1968	DR Gadgil	To analyse institutional situation by social perspective
Mahalnobis Committee	1964	PC Mahalnobis	To examine national income

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International Organisations and their Chiefs

Ban Ki-moon	Secretary-General, United Nations Organisation.
Jan Eliasson	Deputy Secretary-General, UN.
Dr Jim Yong Kim	President, World Bank.
Christine Lagarde	Managing Director, International Monetary Fund (IMF).
Ms. Irina Bokova	Director-General-UNESCO.
Dr. Margaret Chan	Director-General, WHO.
Jose Graziano da Silva	Director-General, Food and Agricultural Organisation.
Guy Ryder	Director-General, International Labour Organisation.
Anthony Lake	Executive Director, United Nations International Children's Emergency Fund (UNICEF)
Antonio Guterres	UN High Commissioner for Refugees.
Ms Helen Clark	Administrator, United Nations Development Programme.
Mr Mukhisa Kituyi	Secretary-General, United Nations Conference on Trade and Development (UNCTAD).
Jose Angel Gurria	Secretary-General, Organisation of Economic Cooperation and Development (OECD).
Peter Tomka	President, International Court of Justice.
Navy Pillay	UN High Commissioner for Human Rights

Important Personalities Related to Finance and Banking

Finance Minister	Shri Palaniappan Chidambaram
Finance Secretary	Sumit Bose
RBI Governer	Raghuram Rajan
SEBI Chairman	UK Sinha
BSE Mdand CEO	Ashish Chauhan
NSE Mdand CEO	Chitra Ramakrishna
14th Finance Commission Chairman	Y. V Reddy
Planning Commission Depoty Chairman	Montek singh Ahluwalia

Public Sector Banks and their Chiefs

S. No.	Name of the Bank	Name of the CMD	S. No.	Name of the Bank	Name of the CMD
1.	State Bank of India	Arundhati Bhattacharya	12.	Indian Overseas Bank	sh M Narendra
2.	Allahabad Bank	sh Rakesh Sethi	13.	Oriental Bank of Commerce	sh SL Bansal
3.	Andhra Bank	sh CVR Rajendran	14.	Punjab and Sind Bank	sh Jatinder Bir Singh
4.	Bank of Baroda	sh SS Mundra	15.	Punjab National Bank	sh KR Kamath
5.	Bank of India	smt VR Iyer	16.	Syndicate Bank	sh Sudhir Kumar Jain
6.	Bank of Maharashtra	sh Sushil Muhnot	17.	UCO Bank	sh Arun Kaul
7.	Canara Bank	sh RK Dubey	18.	Union Bank of India	Arun Tiwori
8.	Central Bank of India	sh Rajeev Rishi	19.	United Bank of India	Archana Bhargava
9.	Corporation Bank	sh Sadhu Ram Bansal	20.	Vijay Bank	V. Kannan
10.	Dena Bank	sh Ashwini Kumar	21.	IDBI Bank	M.S. Raghavan
11.	Indian Bank	sh TM Bhasim	22.	Bhartiya Mahila Bank	Usha Anatha Subranaian

Important Private Sector Bank and their Chiefs

1.	ICICI Bank	K. V. Kamath (Chairman) Chanda Kochhar	5.	Kotak Mahindra Bank	Shankar Acharya (Chairman)
2.	HDFC Bank	Aditya Puru (MD)	6.	Federal Bank	Abraham Koshy (Chairman)
3.	Axis Bank	Sanjiv Mishra (Chairman) Shikha Sharma (MD and CEo)	7.	City Union Bank	N. Kamakodi (MD and CEo)
4.	YES Bank	Rana Kopoor (MD and CEo)			

LEARN, REVISE
& PRACTICE

BANKING AWARENESS

Banking Awareness is one of the important section in various competitive exams conducted by banks for the recruitment of PO & Clerk. There are lot of questions from Economy, Finance and Current Banking but many students pay less attention to this section due to the lack of knowledge and non availability of quality material on this section.

In this book, complete preparation material for Banking Awareness has been provided which will best serve the purpose.

Highlights of the Book

- According to the **exam pattern** conducted by Banks
- Proper **coverage** of Economy, Bank and Financial aspects
- **Chapterwise questions** with the inclusion of **previous years' questions**
- **11 Practice Sets** to gain confidence
- Latest **Terminology** and Financial & Banking **Current Affair**

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